

REVIEWING MPs' PAY AND PENSIONS: A CONSULTATION

OCTOBER 2012 – SUMMARY PAPER

This paper summarises the themes and the questions in the consultation paper *Reviewing MPs' Pay and Pensions*, which was launched on 15 October. The full document is on the IPSA website¹, along with a report on the research into public attitudes on MPs' pay and pensions, which was conducted for IPSA by ComRes. People can also respond to an on-line survey on the website and read and comment on the IPSA Blog on MPs' pay and pensions. We are also on Twitter.

The consultation marks the next phase in the work of IPSA: determining a new settlement for MPs' pay and pensions. This is an historic moment. Up until now, what an MP gets by way of pay and pension has been decided by MPs themselves. In a complete break with the past, IPSA, as an independent body, will now set the pay and pensions of MPs.

PART A: BACKGROUND AND EVIDENCE

In this part we set out the background and history of MPs' pay and pensions, the evidence we have gathered so far and our approach to the review. Apart from Chapter 1, there are no questions in these chapters, as they are for information and context.

Chapter 1: Introduction

In this chapter, we set out the timing and scope of the review, our guiding principles and our approach to equality and diversity. There are five guiding principles to help us develop the new remuneration package for MPs:

- MPs should be fairly remunerated for the work they do and the total cost to the taxpayer should be affordable and fair;
- remuneration should be seen as a whole – with pay, pension and resettlement payments considered together for the first time;
- it should be simple to explain, understand and administer;
- it should be sustainable, without the need for major changes in the near future;
- as far as is practicable MPs' remuneration should be determined in the same way as that for other citizens.

There are two questions in this chapter:

Q1: Do you have any questions on the guiding principles for our review?

¹ IPSA's website can be found at www.parliamentarystandards.org.uk

Q2: Are there any factors which may affect the equality and diversity of the House of Commons which you think IPSA should take into account when reviewing MPs' pay and pensions?

Chapter 2: The Background to MPs' Remuneration

This chapter looks at the history of MPs' pay from 1911, when an allowance of £400 was first introduced. Today, the base pay for a backbench MP is £65,738 a year. 169 MPs receive extra payments, mainly as Government Ministers, or Chairs of parliamentary committees.

The history of MPs' pay is generally one of periods of stagnation, followed by sharp upward corrections. Those corrections were often not well understood or received by the public. There have been several attempts to index MPs' pay, in line with external measures. These have rarely lasted long.

The chapter also summarises the experience of additional pay for Chairs of Committees, resettlement payments for MPs leaving Parliament and MPs' pensions. The first MPs' pension scheme was introduced in 1964.

Chapter 3: What People Have Told Us So Far

We have been seeking the views of the public in a number of ways since May 2012. These have included independent public opinion research conducted by ComRes, media engagement, and an interactive website with a survey, polls, blogs and a comments board. We have received many emails and letters from the public and have met and discussed our work with academics active in this field. We co-hosted an expert seminar at the Institute for Government in May 2012.

ComRes conducted two quantitative surveys, four focus groups and two citizens' juries on our behalf. Amongst the key findings were:

- most people do not understand what MPs do, which fosters animosity and scepticism;
- negativity towards MPs is entrenched amongst small, vocal groups, but appears to be fragile among the wider public;
- people would like MPs to be treated like ordinary citizens with regards to their pay and pensions;
- most people think that an MP's current salary is broadly fair once they have reflected on the nature of the work and comparative pay scales of other public sector employees.

Chapter 4: The Role of the MP

It is not for IPSA to say what the role of an MP should be: that is for MPs and, ultimately, Parliament. But it is important that the debate on pay and pensions is informed by an understanding of what MPs do.

There is no definitive description of the MP's role, and it differs greatly amongst MPs. It will depend on the nature of the constituency, on the relative priorities the MP attaches to work in the constituency and work at Westminster, and on whether the MP has other roles, such as being a Minister or a Committee Chair. We consider previous efforts to define the role, at least in generic terms. From our engagement with the public so far, we would expect this issue to be central to the question of what an MP should be paid.

Chapter 5: How Does MPs' Pay Compare?

In this chapter we show how MPs' pay compares with a range of other public sector occupations and with legislators in other countries. We look at past studies carried out by the Senior Salaries review Board (SSRB).

No firm conclusions can be drawn from this, but in broad terms, UK MPs' salaries are lower today than many of the traditional comparators.

PART B: A NEW REMUNERATION PACKAGE

This part sets out options for the new remuneration package for MPs, which we expect to introduce after the next election (expected in 2015)

Chapter 6: Pay for MPs

The discussion in this chapter shows that there is no hard and fast way of determining MPs' pay. There are many interesting ideas, though all have flaws as well as potential benefits. In some cases we might be going beyond our remit if we were to apply them and we need to be mindful of complexity. We look at some of the ideas that have been put to us on differential pay, including performance-related pay (which we rule out), regional pay, pay based on time served in Parliament and on previous salary. We look at pay based on comparisons with other occupations, and some of the views of the public revealed by ComRes's research. We also consider whether there is scope to base MPs' pay on a multiple of national average earnings. Since the 1920s that multiple has oscillated around a multiple of three. It is slightly below that at present. Finally we ask whether the concept of public service should be considered in determining MPs' pay.

There are five questions in this chapter:

Q3: Should there be a differential basis to MPs' pay? If so, on which basis should IPSA vary MPs' pay?

Q4: To what extent should IPSA consider the salary levels of other occupations when determining what MPs should be paid? What other occupations/legislators do you consider to be comparable to the role of MPs?

Q5: Should we link MPs' pay to a multiple of average earnings? If so, what would be an appropriate multiple to establish the level of pay?

Q6: Is the public service component of the job a requirement of the role or something which should attract a reward?

Q7: Are there any other issues that we should consider when determining MPs' pay?

Chapter 7: Indexation of MPs' Pay

This chapter considers the options for indexing MPs' pay in between the reviews in the first year of each Parliament. These reviews are required by the Constitutional Reform and Governance Act 2010. The main options we have identified are to link MPs' pay to:

- economic measures such as price inflation, economic growth or average earnings;
- a percentile of earnings distribution;
- the salaries of other occupations.

There is one question in this chapter:

Q8: Should MPs' pay be linked to an economic index or salary levels of comparable occupations so that, in the future, their pay would be revised each year between pay reviews? If so, to which index or occupations should MPs' pay be linked?

Chapter 8: Pay for Select Committee Chairs and Members of the Panel of Chairs

In this chapter we consider the options for setting the additional payments made to Select Committee Chairs and to Members of the Panel of Chairs (previously known as Standing Committee Chairmen). Currently there are 33 Select Committee Chairs who receive a salary supplement of £14,582 per year. The number of members of the Panel of Chairs varies, but there are currently 36. They receive between £2,910 and £14,582 per year depending on

length of service. IPSA cannot determine whether these supplements should be paid, only how much. We have not so far heard any strong opinions in favour of changing the current arrangements, but other options include basing the payments on time commitments or level of responsibility.

There is one question in this chapter:

Q9: Should IPSA continue the current structure of additional pay (a flat rate for Select Committee Chairs and incremental payments for members of the Panel of Chairs based on length of service) to recognise Chairs' additional responsibilities?

Chapter 9: MPs' Pensions

The MPs pension scheme is, like most schemes in the public sector until recently, a “defined benefit” scheme, based on final salary. The benefits are relatively high, but so too are the contributions paid by MPs. In this chapter we look at the main types of pension scheme that are available and consider the reforms which have taken place in the public sector. We discuss the balance of risk borne by the employer and employee under different schemes. For illustrative purposes we have modelled the MPs' pension scheme using the “reference” scheme developed by the Government for the public sector. We have found that it would reduce the overall cost of the MPs' scheme considerably, from 32.4% of pensionable payroll now, to 24.5%. We then take that 24.5% as a base cost to show what pensions MPs might receive under a variety of possible schemes. We also compare the contributions MPs make to their pension fund with other public sector professions and averages for the private sector. Our aim here is to set the MPs' pension scheme into context, so that people can start take an informed view of the way forward in what is a complex area of policy.

As we develop options for MPs' pensions, we will be guided by a number of principles:

- the MPs' pension scheme must provide MPs with an appropriate pension in retirement, based on their service as an MP;
- it should, as far as possible, seek to be more equitable between MPs of different ages, background and income levels;
- it must have an appropriate and fair balance of costs and risks between the member and the taxpayer;
- it must be sustainable and affordable in the short and long term and not require significant amendment for at least 25 years;
- any reforms should protect accrued rights.

There are four questions in this chapter:

Q10: Do you have any views on the guiding principles for reforming MPs' pensions?

Q11: Should the MPs' pension scheme be reformed using a career average revalued earnings (CARE) scheme in the same way as other public service schemes? Or should another model be adopted?

Q12: Should MPs be offered flexibility in their pension provision, such as reduced contributions in return for reduced benefits?

Q13: How should we determine the appropriate proportion of contributions from the MP and the taxpayer [to the MPs' pension fund]?

PART C: NEXT STEPS

This part looks at what changes we might introduce in the short term, before the next general election. These changes, if introduced, would affect incumbent MPs.

Chapter 10: Implementation and Next Steps

Following this consultation, we will report on the findings and set out the way forward in early January 2013. There will be a further consultation on detailed proposals in the spring of 2013, and the results of this will be announced later in the year. Our plan is to introduce the new remuneration package for MPs immediately after the next general election, which is expected in 2015, other things being equal. We recognise that changing economic circumstances could require us to re-examine the package shortly before the election, although we have no plans currently to do so.

This chapter also considers MPs' pay in the short term. There is one question on this:

Q14: Do you believe that IPSA should follow the public sector pay policy and increase MPs' pay by one percent in 2013 and 2014?

Chapter 11: Resettlement Support

In April 2013, we introduced an interim measure, which provides MPs with a "resettlement" payment, should they lose their seat in an election. This is a lump sum payment, akin to a redundancy payment, and is modelled on the scheme for members of the National Assembly for Wales. The maximum available is equivalent to six months of MPs' basic annual salary. So it would be £32,869 at present.

This chapter compares the resettlement payment with traditional redundancy packages and asks whether eligibility for the package should be changed. Some people think the package should be available to all MPs, whether or not their departure is involuntary. We do not currently propose to extend eligibility in this way, but are willing to consider contrary views. We ask whether involuntary departure could cover circumstances such as deselection by the local party, or the constituency being redrawn or eliminated as a result of the current review of parliamentary constituency boundaries. This is less of an issue now that the boundary changes seem unlikely to go ahead before the general election. We also consider whether MPs should receive other support on leaving Parliament, such as “outplacement” services.

There are three questions in this chapter:

Q15: Should MPs leaving Parliament after defeat at an election continue to receive resettlement payments?

Q16: Do you agree that, in the event that the boundary changes are introduced before the general election due in 2015, we should extend the eligibility criteria for resettlement payments to include MPs who seek candidacy or election for another seat and are unsuccessful?

Q17: Do you believe that we should provide outplacement support in addition to the resettlement payment for eligible MPs?

Chapter 12: The Cost of Support to MPs

This chapter provides some context for the consultation on a new remuneration package for MPs. In 2011-12 MPs’ pay cost £48.4m a year, while the taxpayer contribution to the MPs pension scheme is £13.6m. There are no questions in this chapter.

Chapter 13: How to Respond to this Consultation

Please see the annex for details.

DATA ANNEX

The data annex in the consultation paper contains: details of our research on MPs’ pay and comparators; the history of MPs’ pay in graphical form; detail of resettlement payments; and the results of our on-line surveys and polls.

ANNEX – HOW TO RESPOND TO THIS CONSULTATION

1. In this consultation, we have set out our views on the issues facing us as we take on the task of setting a new remuneration package for MPs. We now invite your views on the questions listed on pages 6 and 7. We will analyse the responses to this consultation, alongside other evidence we receive, and will consult the public again in the spring of 2013. You may respond via email, letter, or using the online survey on our website www.parliamentarystandards.org.uk.
2. The consultation runs from 15 October to 7 December 2012. Please ensure that you send your response before the closing date as responses received after 7 December 2012 may not be considered.
3. Responses should be sent to mppayandpension@parliamentarystandards.org.uk. Please include in the subject line "Consultation Response." Responses should be in plain or rich text format, with as little use of colour or logos as possible. If you do not have access to email, you may send your response to:

*MPs' Pay & Pensions Consultation Responses,
Independent Parliamentary Standards Authority,
7th Floor, Portland House,
Bressenden Place,
London SW1E 5BH*

4. **You may wish to note that responses will be published in full, including your name, unless you indicate otherwise when submitting the response. If you do not wish your response to be published, either in full or anonymously, please state this clearly.**
5. If you require a hard copy of the consultation document please email mppayandpension@parliamentarystandards.org.uk or write to IPSA at the address above.