

MPs' Pensions Report on the Consultation March 2012



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MPs' Pensions Report on the Consultation March 2012

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to the Constitutional Reform and Governance Act 2010

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Contents

Report on the Consultation	4
Introduction	4
Increased Contributions.....	6
Other Responses	8
Next Steps	10
The Parliamentary Contributory Pension Fund: MPs' Pension Scheme	11
Response of the Trustees of the Parliamentary Contributory Pension Fund	18

Report on the Consultation

Introduction

1. This is the report on the IPSA MPs' Pensions consultation, held between 8 February and 29 February 2012. That consultation was based on our assessment that if MPs did not have a similar pension contribution increases to those being applied to other public service schemes, there would be a potential impact on public confidence in MPs, in Parliament and the principle of independent regulation. It was also based, in part, on the motion passed by the House of Commons in October 2012, which invited us to raise contribution rates in line with other public service schemes.
2. In our consultation document we invited views on our proposals to:
 - impose an interim increase in MPs' pension contributions of 1.85%¹ from 1 April 2012; and
 - allow MPs the flexibility to move down a benefits level if the new contribution levels proved difficult for them to afford.
3. We received 28 responses to this consultation. Of those responses:
 - thirteen were from MPs;
 - eight were from members of the public;
 - three were from statutory consultees under the Constitutional Reform and Governance Act 2010; and
 - four were from other individuals and bodies.
4. We are grateful to all those who responded. We have analysed the responses and discussed our proposals further with the Trustees of the Parliamentary Contributory Pension Fund ("the Trustees") and their officials. All of the responses are available on our website www.parliamentarystandards.org.uk except where a respondent has requested that the response should not be published.
5. In what follows, we have set out our plans to amend the MPs' pension scheme and our reasons for doing so. We are satisfied that the changes we propose are fair, workable and transparent. They are fair to MPs and to taxpayers and will ensure that IPSA's fundamental principle, that MPs should be treated as far as possible in the same manner as ordinary citizens, is respected.
6. As we made clear in our consultation document, these reforms are introduced on an interim basis. We remain committed to conducting a thorough review of MPs'

¹ This is a 1.85% point increase, as opposed to 1.85% of the previous contribution level.

remuneration which will set the appropriate level of MPs' pay and pension for the long-term. During this process we will engage with members of the public as well as MPs and representative organisations, and ensure that the public's voice is heard in this important debate.

7. This Report, the new MPs' Pension Scheme ("the Scheme") and the Response from the Trustees have been laid before the House of Commons. The Report constitutes IPSA's "statement of reasons" pursuant to Paragraph 15(2)(c) of Schedule 6 to the Constitutional Reform and Governance Act 2010. The new Scheme will come into force on 1 April 2012.

Increased Contributions

8. In our consultation paper, we proposed that MPs at all benefit levels should have their contributions increased by 1.85% from 1 April 2012. This proposal received comments from seven respondents. One MP and one member of the public agreed with the proposed level of the increase, while the Senior Salaries Review Body noted that it saw no justification why MPs should not have the same increase applied to other similarly paid public service workers i.e. 2.4%. The GMB trade union submitted that the increase was effectively lower than that being paid this year by other public sector workers who pay basic rate tax. Two MPs (Matthew Hancock and Ian Swales) said that applying an increase of 1.85 percentage points to all three benefits levels would be inequitable, as it applies a proportionately higher increase to those who currently contribute least. Barry Gardiner MP noted that applying a contribution increase at the same time as imposing a pay freeze is effectively a pay cut. Other respondents, including the Parliamentary Labour Party (PLP) and the Trustees, believed that there was no need for an interim increase and that we should instead wait until our wider review of MPs' pay and pensions has concluded. In its response, the PLP noted that the motion passed by the House of Commons invited us to increase MPs' contribution rates in line with other public service schemes. But, it argued, the only comparable scheme (because it is a funded scheme) is the Local Government Pension Scheme, which is having no increase applied this year.

Our position

9. As we set out in our consultation document, we consider it essential for public confidence in MPs, in Parliament and in the principles of independent regulation that MPs are not seen to be shielded from the increases applied to other public sector workers. We have also been influenced by the motion passed by the House of Commons, which invited us to increase contribution rates for MPs "In line with changes in pension contribution rates for other public service schemes".
10. We do not consider it appropriate to use only one scheme when deciding on a comparable increase. It is true that the local government scheme will not be applying an interim increase this year. But the members of that scheme are, by and large, paid significantly less than MPs and a lack of any immediate increase is unlikely to affect public confidence in the same way as it would for MPs. Instead, our proposals took account of the increases applied to a range of public service schemes and the fact that MPs already pay higher contributions as a proportion of income (and receive higher benefits) than many workers.
11. During the consultation process we considered applying different increases to the different levels of benefits. Such an approach might be fairer to the very small number of MPs who do not contribute at the top benefits level, but would introduce

additional complexity to an already complex pension scheme. We also took account of the fact that previous increases in the MPs' Pension Scheme have applied a single increase across the benefits levels.

12. We have therefore decided that from 1 April 2012 there will be a 1.85% increase to all contribution rates. This will apply to future service only.

Flexibility to move to a lower benefits level

13. In our consultation document we proposed that in recognition of the fact that MPs already pay high contributions and that the increase of 1.85% may make the Scheme financially challenging for some MPs at their current benefits level, we would allow MPs a window within which to switch to a lower level.
14. This proposal received comments from seven respondents. Five respondents, including the Trustees, the Senior Salaries Review Body, the GMB and the Speaker were explicitly in favour. However, both the Speaker and the Trustees requested that the proposed three-month window for switching be widened to allow for MPs who may have pensions with other providers to make an informed choice. The Trustees suggested that while we maintain a three-month limit, we should allow all MPs who have expressed interest in switching levels before this date to switch at a later date.
15. In his response the Government Actuary noted that he would be happy to reflect the savings to the Exchequer contribution in an updated valuation once the window had closed. Both the PLP and the Trustees noted that allowing MPs to switch tiers may in certain circumstances actually increase the cost to the taxpayer, rather than save money. This is due to the complex nature of the current Scheme and could arise if some MPs close to the upper benefits limit switched to a lower accrual rate. We acknowledge that there is a risk of increased cost in respect of some MPs who may switch, but believe that this should not prevent us from offering the flexibility of switching levels to all MPs, which should, overall, save money.
16. The Trustees have also indicated to us that some MPs on the lower benefits levels may wish to move up one or more levels, rather than down; this would increase their benefits, but also their costs. If significant numbers of MPs moved up one or more level, it would slightly increase the cost to the taxpayer.
17. The Trustees and the PLP both responded to the question of backdating any changes in benefits levels. Both argued that to be fair to MPs any change in levels should be backdated to 1 April 2012. The Trustees have also told us that this is the simplest option, administratively.

Our position

18. It is important that MPs should have adequate and appropriate pension provision but we are concerned that some MPs might find the higher contribution rates difficult to finance. It would not be possible to allow MPs to switch benefits levels at any time, as this would introduce additional complexity and uncertainty into the administration of the Scheme. Therefore we will allow a three-month switching window from 1 April 2012, during which MPs can request that their benefits level be adjusted. In recognition of the view from the Trustees and the Speaker that it will take longer for some MPs to ascertain their position and make a decision, we are content for the Trustees to allow MPs who have expressed an interest in switching during this period actually to switch at a point after the official window has closed.
19. We carefully considered the proposal from the Trustees that MPs be allowed to switch up benefits levels as well as down. We are concerned about any prospect of additional cost being placed on the taxpayer. But nearly all contributing MPs are already at the highest level and the difference in cost between accruing at 1/50th and 1/40th is significant and so we do not expect that many (if any) MPs would take this option. On this basis, we will give MPs the option to move up as well as down.
20. We agree with the Trustees that it would be fair to MPs for any change in benefits levels to be backdated to 1 April 2012.

Other Responses

Added Years

21. Both the Speaker and the Trustees noted that where MPs are purchasing added years through contributions from their salary (added years are designed to be actuarially neutral without additional cost to the taxpayer), their contributions (as a proportion of salary) may be significantly higher than the standard contribution rates. Contracts to purchase added years currently run until MPs leave Parliament, and it was requested that IPSA amend the rules to allow these contracts to cease at the MP's request. We have taken advice from the Government Actuary, who has noted that allowing these contracts to end should not create any extra cost to the taxpayer. On this basis we will allow cessation of these contracts in the new Scheme.

The Consultation

22. Several respondents, including the Trustees, the PLP and some MPs remarked that the consultation was only open for a short period, much of which was during the parliamentary recess. Some also noted that limited information was available for respondents. While the Speaker welcomed the fact that we had consulted the public

as well as MPs, Barry Gardiner MP warned that IPSA “should not seek to manipulate terms and conditions of MPs in line with public opinion through ‘supposed consultation’”.

23. We regret that such a short consultation was necessary. In our view it was important that this issue was considered so that MPs were not shielded from the increases to public service pension contributions this year. In order to have the reforms in place and laid before Parliament by the end of March, the consultation was necessarily shorter than we would have wished. The scope of this consultation was relatively limited and the consultation document was self-explanatory. We also provided additional modelling data as soon as we were able² and discussed our proposals with and provided more information to any MP or respondent who requested it.
24. We do not apologise for consulting the public. The responses from members of the public show that feelings run deep on this important issue. In our view it is right that the public should, for the first time in history, have had a say in how the MPs they elect are remunerated.

Other Issues

25. Some members of the public who responded commented on the comparisons with changes being applied in other public service pension schemes, such as the NHS. Several noted that even after these changes, the Scheme will still be relatively generous in comparison to those now available in the private sector. Some MPs, the Speaker, the Trustees and the PLP noted that we have committed to a thorough long-term review of MPs’ pay and pensions together and were disappointed that we had consulted on implementing an interim increase in advance of that review.
26. We have set out our reasons for applying an interim increase in our consultation document and at paragraphs nine to twelve above. We remain committed to the long-term review and we have said that the review will consider a variety of pension scheme designs, including the principles set out by the Hutton Review.³ We will set out more detailed plans for the review of MPs’ pay and pensions over the next few months.

² This is available on our website www.parliamentarystandards.org.uk

³ The Independent Public Service Pension Review http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

Next Steps

27. As we said in our consultation document, we believe that the time is right for a root and branch review of MPs' remuneration. Several respondents to this consultation made the point that it is right that we consider the long term future of the two sides of remuneration – pay and pensions – together. We agree and plan to conduct a thorough review of both, starting immediately.
28. We will not prejudge the outcome of that review. But we believe that any consideration of the remuneration for MPs should respect our fundamental principle that MPs should, as far as possible, be treated in the same manner as ordinary citizens. The remuneration package must be also acceptable to the public and command its confidence. That is why we will carefully consider the pay and pensions landscape in the rest of the public sector. And we will continue to involve the public in the debate by engaging with taxpayers, MPs and other interested parties on the best way forward for these issues over the next few months, before a formal consultation towards the end of this calendar year.

The Parliamentary Contributory Pension Fund

The MPs' Pension Scheme

Introduction

1. The following terms have the following meanings within this memorandum and the schedule to it:
 - a. **Commencement Date** means 24 October 2011;
 - b. **CRA** means the Constitutional Reform and Governance Act 2010;
 - c. **Current Scheme** means the current arrangements for pensions for MPs and certain office holders;
 - d. **PCPF** means the Parliamentary Contributory Pension Fund;
 - e. **Paragraph 12 Scheme** means a scheme containing provision about the application of assets of the PCPF in or towards the provision of pensions for or in respect of persons with service as a member of the House of Commons, in respect of that service which has been made by IPSA under paragraph 12 of Schedule 6 to CRA;
 - f. **Effective Date** means 1 April 2012;
 - g. **Existing Paragraph 12 Scheme** means the existing Paragraph 12 Scheme under the Current Scheme;
 - h. **IPSA** means the Independent Parliamentary Standards Authority;
 - i. **New Paragraph 12 Scheme** means the new Paragraph 12 Scheme made by IPSA under this memorandum and the schedule to it; and
 - j. **Paragraph 8 Scheme** means an administration scheme made by IPSA under paragraph 8 of Schedule 6 to CRA.

All other defined terms have the meanings prescribed to them in Schedule 6 to CRA.

2. With effect on and from the Commencement Date, IPSA was given responsibility under CRA for determining new arrangements for MPs' pensions.
3. With effect on and from the Commencement Date and pursuant to paragraph 44 of Schedule 6 to CRA, IPSA was deemed to have made:

- a. a Paragraph 8 Scheme; and
- b. a Paragraph 12 Scheme,

which together contain the provisions of the Current Scheme.

4. The provisions of the Current Scheme are identical to the provisions of the PCPF in force immediately prior to the Commencement Date insofar as they related to pension provision for MPs, including both the main final salary scheme for MPs and the supplementary career average scheme for certain office holders, (namely the Chairman and Deputy Chairman of Ways and Means, paid Select Committee Chairmen and Members of the Panel of Chairs). These provisions were previously contained in the Parliamentary Pensions (Consolidation and Amendment) Regulations 1993 and the Parliamentary Pensions (Additional Voluntary Contributions Scheme) Regulations 1993, both as amended.
5. Paragraph 22 of Schedule 6 to CRAG provides that a Paragraph 12 Scheme made by IPSA may amend or revoke any previous Paragraph 12 Scheme made by it.
6. With effect on and from the Effective Date, IPSA intends to make the New Paragraph 12 Scheme in order to replace the Existing Paragraph 12 Scheme in its entirety.
7. The provisions of the New Paragraph 12 Scheme are set out in the schedule to this memorandum.
8. For the avoidance of doubt, IPSA does not wish to make a new Paragraph 8 Scheme, and confirms that the existing Paragraph 8 Scheme under the Current Scheme will continue in its entirety and will be unaffected by this memorandum or the schedule to it.
9. In the course of preparing this memorandum, IPSA has:
 - a. consulted with the Treasury, the Minister for the Civil Service, the trustees of the PCPF, persons that IPSA considers to represent those likely to be affected by the New Paragraph 12 Scheme, the Government Actuary, the Review Body on Senior Salaries, and any other person IPSA considers appropriate; and
 - b. sent any representations made by the PCPF trustees, a copy of the New Paragraph 12 Scheme, and a statement of the reasons for making the New Paragraph 12 Scheme to the Speaker of the House of Commons for laying before the House of Commons,

as required by paragraph 15 of Schedule 6 to CRAG.

SCHEDULE

The Parliamentary Contributory Pension Fund

The MPs' Pension Scheme

The New Paragraph 12 Scheme

1. In exercise of its power under paragraph 12 of Schedule 6 to Crag and all other enabling powers, IPSA hereby makes the New Paragraph 12 Scheme in order to replace the Existing Paragraph 12 Scheme in its entirety with effect on and from the Effective Date.
2. The provisions of the New Paragraph 12 Scheme are identical to the provisions of the Existing Paragraph 12 Scheme, except for the amendments set out in paragraphs 5 to 8 of this schedule.
3. For ease of reference, IPSA has used the relevant regulation reference as set out in the Parliamentary Pensions (Consolidation and Amendment) Regulations 1993 when drafting this schedule, notwithstanding that these provisions have since been deemed to have been made into the Existing Paragraph 12 Scheme by IPSA.
4. The New Paragraph 12 Scheme shall be called the Parliamentary Contributory Pension Fund (MPs' Pension Scheme).
5. **A2 (Interpretation)** is amended as follows:
 - a. The words "*or (for participating members on 1st April 2012 and in respect of the period beginning on 1st April 2012) in regulation D1(3L)*" are added after the words "*regulation D1(3A)*" in each of:
 - i. sub-paragraphs (d)(i)(aa) and (d)(i)(bb) of the definition of "Category 1 contributor";
 - ii. sub-paragraphs (d)(i)(aa) and (d)(i)(bb) of the definition of "Category 2 contributor"; and
 - iii. sub-paragraph (b)(i) of the definition of "Category 3 contributor".
 - b. The words "*or (for participating office holders on 1st April 2012 and in respect of the period beginning on 1st April 2012) in regulation D2(3M)*" are added after the words "*regulation D2(3A)*" in each of:

- i. sub-paragraphs (d)(ii)(aa) and (d)(ii)(bb) of the definition of "Category 1 contributor";
- ii. sub-paragraphs (d)(ii)(aa) and (d)(ii)(bb) of the definition of "Category 2 contributor"; and
- iii. sub-paragraph (b)(ii) of the definition of "Category 3 contributor".

6. **D1 (Contributions by participating Members)** is amended as follows:

- a. The first line of D1(3)(e) is amended to read as follows:

"in relation to a period beginning on or after 1st April 2009 and ending before 1st April 2012--"

and the word ", or" is added to the end of D1(3)(e)(iii) in place of the "."

- b. A new sub-paragraph D1(3)(f) is added as follows:

"(f) in relation to a period beginning on or after 1st April 2012—

- (i) in respect of all or any part of such period as a Category 1 contributor is 13.75 per cent;*
- (ii) in respect of all or any part of such period as a Category 2 contributor is 9.75 per cent; or*
- (iii) in respect of all or any part of such period as a Category 3 contributor is 7.75 per cent"*

- c. A new paragraph D1(3L) is added as follows:

"(3L)

- (a) Each participating Member who is a Member of the House of Commons on 1st April 2012 ("M") may exercise the option to change his membership category as at 1st April 2012 to a different membership category, by giving a qualifying notice that is received by the Trustees no later than 30th June 2012.*
- (b) In this paragraph (3L), a qualifying notice (unless agreed otherwise by the Trustees) is a notice in a form acceptable to the Trustees which—*
 - (i) is in writing;*

(ii) *is signed by M, at a time when M is a participating Member; and*

(iii) *specifies whether M wishes to contribute to the Fund as a Category 1, Category 2 or Category 3 contributor.*

(c) *The effective date of the option is 1st April 2012.*

(d) *If M does not exercise the option in this paragraph he will continue to be in the same membership category as he was on 1st April 2012."*

d. The words "*or paragraph (3L)*" are added after the words "*paragraph (3A)*" in both paragraphs D1(3F), D1(3J) and D1(3K).

7. **D2 (Contributions by participating office holders)** is amended as follows:

a. The first line of D2(3)(e) is amended to read as follows:

"in relation to a period beginning on or after 1st April 2009 and ending before 1st April 2012--"

and the word "*, or*" is added to the end of D2(3)(e)(iii) in place of the "*."*"

b. A new sub-paragraph D2(3)(f) is added as follows:

"(f) in relation to a period beginning on or after 1st April 2012—

(i) in respect of all or any part of such period as a Category 1 contributor is 13.75 per cent;

(ii) in respect of all or any part of such period as a Category 2 contributor is 9.75 per cent; or

(iii) in respect of all or any part of such period as a Category 3 contributor is 7.75 per cent"

c. A new paragraph D2(3M) is added as follows:

"(3M)

(a) Each participating office holder who is an office holder on 1st April 2012 ("H") may exercise the option to change his membership category as at 1 April 2012 to a different membership category, by giving a qualifying notice that is received by the Trustees no later than 30 June 2012.

(b) *In this paragraph (3M), a qualifying notice (unless agreed otherwise by the Trustees) is a notice in a form acceptable to the Trustees which—*

(i) *is in writing;*

(ii) *is signed by H, at a time when H is a participating office holder; and*

(iii) *specifies whether H wishes to contribute to the Fund as a Category 1, Category 2 or Category 3 contributor.*

(c) *The effective date of the option is 1st April 2012.*

(d) *If H does not exercise the option in this paragraph he will continue to be in the same membership category as he was on 1st April 2012."*

d. The words "*or paragraph (3M)*" are added after the words "*paragraph (3A)*" in paragraphs D2(3F), D2(3G), D2(3K) and D2(3L).

8. Paragraph 3 (Purchase of added years by periodical contributions) of Schedule 6 (Purchase of Added Years) is amended to read as follows:

"3

(1) *Subject to paragraph (2) below, an application by a participating Member to purchase added years shall be irrevocable on and from the date when the Trustees accept his application.*

(2) *A Member whose application to purchase added years has been accepted and who is paying periodical contributions for those added years may elect to terminate his periodical contributions by giving written notice of such election to the Trustees. Where a Member makes such an election, no further periodical contributions will be payable by him and his reckonable service as a participating Member will in respect of each application be increased by*

$(A \times B) / C$

where—

A is the number of added years he applied to purchase by periodical contributions;

B is the period (expressed to the nearest day) during which periodical contributions have been paid;

C is the total period during which periodical contributions would have been payable in accordance with paragraph 4(1) below.

- (3) *A Member who has ceased to pay periodical contributions under sub-paragraph (2) of this paragraph may, subject to sub-paragraphs (4) and (6) of this paragraph, give notice to the Trustees in writing that he intends to resume payment of his periodical contributions in respect of the added years for which he was previously making periodical contributions provided that he has not yet attained the age of 65 years and his current period of service and the period of service during which he ceased to pay periodical contributions together constitute an aggregate period of reckonable service as a participating Member. Such periodical contributions shall then be payable from a date determined by the Trustees and shall continue until he attains the age of 65 years at the rate or rates applicable at the date he ceased to pay periodical contributions under sub-paragraph (2) of this paragraph.*
- (4) *Where a participating Member has resumed payment of periodical contributions in accordance with sub-paragraph (3) of this paragraph thereafter becomes entitled to a pension under regulation F1, his reckonable service as a participating Member shall be increased in accordance with sub-paragraph (2) of this paragraph except that C shall be read as the total period during which he would have paid periodical contributions for those added years if his payment of periodical contributions had been continuous.*
- (5) *If a participating Member has resumed payment of periodical contributions in accordance with sub-paragraph (3) of this paragraph he may, if, in consequence of his break in the payment of periodical contributions, there has been a reduction in the number of added years which he is able to purchase in full, with the agreement of the Trustees and, subject to the provisions of paragraphs 2(1)(ii) and 8 of this Schedule, apply to purchase by periodical contributions payable until he attains the age of 65 years some or all of the number of added years comprised in that reduction at the rate applicable to the participating Member's birthday next following the receipt by the Trustees of his application.*
- (6) *Sub-paragraphs (3), (4) and (5) of this paragraph shall not apply where the application to purchase added years before the participating Member ceased to pay periodical contributions was made under paragraph 2(2) above."*

Response of the Trustees of the Parliamentary Contributory Pension Fund

This document relates to the Parliamentary Contributory Pension Fund (the "PCPF") and is the response from the trustees of the PCPF (the "Trustees") to IPSA's consultation of January 2012 in relation to MPs' pensions. In short, the consultation seeks views on IPSA's proposal to increase member contribution rates to the PCPF by 1.85% of pensionable pay with effect from 1 April 2012.

We are aware that as statutory consultees (under the provisions of the Constitutional Reform and Governance Act 2010), IPSA is required to lay our response before the House of Commons.

Key messages

1. There are a number of points that the Trustees wish to put to IPSA in response to its consultation. These are detailed below but can be summarised as follows:
 - As they stand, IPSA's proposals fail to meet its own stated principle of treating MPs in the same manner as others in the public service because:
 - (i) it would be increasing members' contributions without any independent review of the PCPF having been undertaken; and
 - (ii) in the only comparable funded public service pension scheme (the LGPS), recent similar proposals to increase members' contributions on an interim basis have now been shelved,
 - To meet that principle, IPSA needs to carry out its review first. Revisions to the PCPF, in the wider context of MPs' remuneration, may well be necessary and indeed higher member contributions may be appropriate – we accept that. But we urge IPSA not to be further distracted nor to continue to deploy its limited resources away from the path it had previously set itself, namely to carry out a "root and branch" review of MPs' pay and pensions,
 - We urge IPSA to consider a delay in the implementation of the contribution increase, if indeed it is minded to go ahead with the proposal. Bearing in mind increases to other public sector schemes and the relevant consultation periods, IPSA will be fully aware that the consultation period allowed in this instance is in no way comparable. If IPSA are committed to treating MPs in the same manner

as others in the Public Service this would involve delaying the implementation period by at least six months,

- IPSA do not appear to have given any weight to the benefit design changes and member contribution increases that have been implemented in the PCPF in recent years, In anticipation of the changes now being proposed in the public service,
 - We ask IPSA to make an announcement about its forthcoming review, at the same time as announcing the outcome of this consultation,
 - We are concerned about the short window of opportunity in relation to the proposed flexibility for MPs to opt to a lower accrual rate, and
 - We have some observations about perceptions of IPSA's independence and the shortness of the consultation process.
2. At the Trustees' meeting on 27th February 2012, attended by Sir Ian Kennedy and officials from IPSA, Sir Ian informed us that unless there was a strong argument against the proposed increase, IPSA would be adopting the position outlined in its consultation document. Whilst finding this a surprising stance to take during a consultation period, we believe there are strong reasons not to impose the increase as outlined in this consultation response and we urge IPSA to consider them seriously.

The wider review

3. Although IPSA has set out its rationale for the proposed increase to MPs' contributions, we are of the firm opinion that this is an inappropriate step to be taken without IPSA first undertaking its full review of MPs' pay and pension provision.
4. IPSA states in the consultation document that it believes "*the time is right for a root and branch review of MPs' remuneration*". We agree wholeheartedly with that. Membership of the PCPF is an important and valuable part of MPs' remuneration and the benefits provided in the future ought properly to be considered in the round with other aspects of remuneration (salary, allowances etc).
5. We fully recognise that the outcome of the wider review to be undertaken by IPSA may see a proposed overhaul of the current pension provision afforded to MPs, set against the backdrop of IPSA's objectives in setting MPs pay and pensions. It may even result in IPSA concluding that it is fair and proper for MPs to pay higher

member contribution rates than the rates being paid. We certainly accept that the contributions payable by MPs need to be appropriate, in the context of the total remuneration package. The point, however, is that such changes should be debated as part of a full and proper review of MPs' pay and pensions, not in isolation.

6. We are also concerned that, rather than focussing their limited resources on that wider review, IPSA's resources have instead been used in recent weeks preparing the consultation itself. No doubt this will continue over the coming weeks / months, if IPSA decides to implement the proposed increase. There are, for instance, a number of practical and technical issues raised by us in this consultation response which IPSA would need to consider carefully. The result is that IPSA's resources are being (and look set to continue to be) distracted from the crucial work around the wider review that ought to have been its priority. We are also concerned about the cost of conducting this exercise.

Treating MPs in the same manner as ordinary citizens

7. IPSA is in our view in danger of failing to meet its own stated fundamental principle of treating MPs '*as far as possible...in the same manner as ordinary citizens*'. . In particular:
 - The PCPF was expressly not the subject of the review by Lord Hutton of other public service pension schemes. Pressing ahead with the proposed increase fails to afford MPs the same right as has been afforded to other public sector workers – where the terms of their pension provision have been reviewed independently, before imposing future service changes,
 - Whilst we accept that the membership profile of the PCPF differs from the Local Government Pension Scheme ("**LGPS**"), that scheme is an appropriate comparator given that it, like the PCPF, is a *funded* public service scheme. In recent months we have seen DCLG propose a similar "interim" increase in member contributions in relation to the LGPS, only for the parties there to accept that a 'single step solution' is the more appropriate way forward. There will therefore be no "interim" increase applied to the LGPS members' contributions,
 - The consultation period given to MPs has been exponentially lower than that given in any other public sector scheme. For example, members of the various Civil Service pension schemes were first consulted about potential increases in July 2011 for an April 2012 implementation date, and
 - The increases to pension contributions being applied in the Civil Service are set against a backdrop of an insight as to what the future holds. Indeed, details of

the new proposals for the Civil Service scheme due to be implemented in 2015 are already available on the Civil Service website. By contrast, MPs have no indication from IPSA of any wider changes that might be made to the PCPF, other than the statement that it *"will have due regard to the principles of the Hutton Review"*.

8. For these reasons, we strongly feel that were IPSA to press ahead with the proposed increase to members' contributions in the PCPF, it is impossible to sustain the principle that MPs are being treated in the same manner as others in the public service..
9. If nonetheless IPSA concludes that it will impose higher member contributions on MPs as an interim measure, we believe this would:
 - Completely fail to recognise that MPs have already "led the way" in changes to public sector workers' pension provision, having as recently as 2009 already endorsed a package of cost saving changes to the PCPF, backdated to 1 April 2009, which was judged by the Government Actuary to make savings equivalent to 2.9 per cent of payroll, increasing MPs' own contribution rates by 1.9%,
 - Unfairly penalise MPs for having imposed those changes on themselves, before the Government sought to negotiate similar changes with other public sector workers, and
 - Create an extended period of uncertainty for MPs as there will be changes imposed in the short-term with yet further (currently unknown) changes expecting to be imposed perhaps in 2013. IPSA should go some way to addressing that, at least by confirming that it is working towards the completion of its wider review during 2012 and so would not expect to seek to impose a further increase to members' contributions next year.
10. We recommend that, if the proposed increases are going ahead, IPSA makes an announcement to MPs (at the same time as announcing the outcome of this consultation) about the forthcoming review of pay and pensions and the timescales for implementation. This will aid in making MPs aware of the position and put some perspective on the decision they are being asked to make about their future contribution rate.
11. We expect to be kept fully informed of proposed communications from IPSA to MPs in respect of their pension provision.

Option to switch accrual rate

12. We welcome IPSA's proposal to enable members to choose to switch their accrual rate down so as to enable members to maintain current take-home pay (albeit whilst earning a lower pension for future service). We agree with the view that this facility will go some way towards addressing the risk of members simply opting out of membership of the PCPF altogether.
13. We do not however have the same faith as IPSA appears to have that this concession will stop members opting out. The Trustees have, despite the very short consultation period part of which overlapped with Parliament's recess, held a number of consultation meetings with current active members, and there was a clear message that a number of members will opt-out if the proposal goes ahead. That inevitably risks alienating a significant number of MPs, whose morale (particularly amongst those younger MPs who are relatively new to their post) is already low.
14. We do however believe that members should be able to switch their accrual rate up *or* down. In view of potential changes to the PCPF along with the uncertainty that some MPs are faced with due to boundary changes, we believe members should be given the opportunity to maximise their pension benefits and switch up if their personal circumstances allow. A similar facility was offered when switching was part of the 2009 member contribution rate increases. Our expectation is that this would be no more complex to administer than the proposed switch-down option.
15. In any event, we do not consider it appropriate that IPSA seeks to open up the proposed facility only for a short (three-month) window and at short notice. We would draw the following points to IPSA's attention:
 - When member contribution rates were last increased in 2009, the changes were communicated to members in December 2009 with a deadline for decisions to be made by 31 March 2010,
 - In order for the switching window to be equitable, members need to be afforded appropriate time to take a fully informed decision. It was clear from those 2009 changes that a three-month window was not sufficient time for this purpose. The main reason was delays in members being able to obtain information about their other pension savings from third party pension providers. Those savings impact on total PCPF benefits (as these 'retained benefits' are taken into account in calculating a member's maximum PCPF benefit) and therefore impact on members' decision-making around future pension accrual,

- Those delays resulted in many members having to be afforded the opportunity to implement their switch *after* the deadline, provided they had expressed an intention to do so (pending receipt of further information). Learning from that experience, an option which would mitigate some of the difficulties with a switching window would be to allow members to switch after the window has lapsed as long as they have made their initial enquiry during the window, i.e. an expression of interest. This would enable more time to make a considered decision and would be simple to administer,
- A high number of requests for information put to the PCPF's administrators, rpm – a number of which have already come in and this will likely snowball – will take time to respond to fully and accurately,
- The complexity of a switching option will take time to communicate to members (including drafting and publishing member literature) and will put added pressure on the Trustees' own budget, and
- In reality, it is somewhat misleading to expect members to take a "fully informed decision" when it is known that further changes are likely to materialise from the wider IPSA review which is why we recommend the announcement from IPSA to members requested in paragraph 10.

16. We ask that IPSA additionally considers the following technical issues:

- There are a small number of PCPF members whose current accrual rate is 60ths. Absent a broader proposal from IPSA, there is no lower accrual rate which these members could choose to switch to so that in effect they have no choice but to accept the increase (or opt out of PCPF membership),
- A number of members (around 40) currently pay additional voluntary contributions to buy added years of pension. The contracts are irrevocable so that members will not be in a position to reduce those voluntary contributions to mitigate the impact of the proposed increase to the compulsory member contribution rate,
- Whilst on the topic of added years, we ask that IPSA considers removing the requirement for added years' contracts to be irrevocable (as they are now) so that members can if they choose cease paying those contributions. This would certainly be appropriate to do were IPSA to press ahead with its current proposal or, if IPSA were as we request to withdraw its proposal and instead carry out the full review first, it should be implemented as part of that review, and

- When members have in the past been afforded a window within which to switch-down their accrual rate, any overpaid contributions (within the window) have been offset against future contributions due to the PCPF (through a payroll adjustment). There was also a facility for repaying overpaid contributions (less tax) to a member where they ceased in active PCPF membership before the offset had been implemented in full. IPSA will need to consider whether similar facilities will work here or suggest a workable (including from a member tax perspective) alternative.

Observations on perceptions of IPSA's independence

17. There is a final matter which we consider it appropriate to mention in this consultation response, relating to the fact that IPSA has entertained the idea of an interim measure of this nature pending its wider review of MPs' pay and pensions later this year.
18. We were pleased to have received a letter from the chair of IPSA, immediately following the 17 October 2011 motion of the House of Commons, confirming IPSA's intention to conduct that wider review during 2012 with a view to publishing its findings by the end of the year. The timing of that letter was evidently intended as a clear signal that IPSA was not going to be swayed by the wording of the motion or the politics of the debate in the House of Commons that preceded it. We considered that to be a fair approach and one consistent with the expectations surrounding IPSA's independence. Indeed, IPSA was well aware of the debate on the motion as recorded in Hansard and, in light of it, we would be surprised if IPSA genuinely considered it appropriate to read the terms of that motion at face value.
19. We were at the same time reassured that the then intended course of action would enable IPSA to focus its limited resources on carrying out its full and proper review of the PCPF and MPs' remuneration generally.
20. Yet we are, at short notice before 1 April 2012, faced with responding to this consultation. We note:
 - IPSA's belief that MPs' overall remuneration should not only be sufficient to attract candidates to the post but that it must also be acceptable to the public and command its confidence. Establishing and maintaining that confidence is indeed a credible and important objective – but it is however quite different from taking steps which simply react to a general perception of public opinion, and

- the ongoing discussions between Government and affected stakeholders around the reform of public service pension schemes more generally, which are well-publicised. It is in our view incumbent on IPSA to ensure that it is not unduly swayed by the politics of that debate. For instance, whilst the Government announced 'heads of agreement' in December in relation to pension reform in the public sector, in fact no consensus has been reached on many of the issues in those negotiations. Given IPSA's obligation to be independent of Government it is not appropriate for IPSA in effect to follow suit on unilateral steps taken by Government.
21. We remind IPSA of an extract from the Kelly Report of 2009 which ultimately lead to the establishment of IPSA, namely that:

"If the mistakes of the past are not to be repeated, MPs need also to be defended against governments deciding for political reasons to impose a lower settlement than that independently recommended. The Committee's view is therefore that steps should be taken to entrench the independent determination of MPs pay in primary legislation, and to do the same with pensions, which are a form of deferred pay".
 22. In our view, the issuing of the consultation by IPSA does not fully demonstrate this aspect of IPSA's function having been given due and proper consideration. We urge IPSA to give due and proper consideration to these concerns, before concluding its view following this consultation.
 23. Indeed we would strongly support IPSA in having regard to all parties' concerns in undertaking its wider review of MPs' remuneration. In particular, we would be concerned if IPSA already had in its mind a perception that the PCPF *must* be overhauled as part of that review. To the contrary, pension provision is just one facet of MPs' remuneration (as with other ordinary citizens) which ought to be considered in the round.
 24. We would also request that in future IPSA has greater regard to the need for a fair and proper consultation period. It was extremely disappointing that this consultation (despite being dated January 2012 on its cover page) was issued on 8 February and required responses by 29 February, with that window being cut even shorter by the full week's recess during the week beginning 13 February. We expect to see future consultations affording statutory consultees and other interested stakeholders a much more realistic opportunity to engage in the consultation process.

Signed for and on behalf of the Trustees of the PCPF

