

# Review of MPs' remuneration

A consultation

May 2018



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## Foreword by the IPSA Board

The Independent Parliamentary Standards Authority was set up in 2010 to restore trust that MPs were paid fairly for their work, within transparent rules. Since then, we have seen compliance rates of over 99.7 per cent with our Scheme of MPs' Business Costs and Expenses which sets rules and budgets for MPs' office, staffing, travel and accommodation costs.

IPSA was also charged with setting MPs' pay and for reviewing its level in the first year of every new parliament. We last did so in 2015 when, after a two-year consultation period, we increased MPs' pay to £74,000 a year and reduced their pension benefits and other entitlements to public money. We also decided to link MPs' pay to data on actual changes in average earnings in the public sector. As such, we have since adjusted MPs' pay by small annual amounts in line with earnings elsewhere. We believe that this approach has been accepted by MPs and the public, and has contributed to greater confidence that MPs' pay is independently regulated.

As such, in fulfilling our statutory duty to review MPs' pay in the first year of a parliament, we do not believe that we need to change the basis of our approach. But we are taking the opportunity to consult on technical changes to MPs' pensions, and to propose improved lump sum payments to the beneficiaries of any MPs killed in the line of duty. And, in the light of our experience at the 2015 and 2017 General Elections, when we asked former MPs to work for up to two months without pay to close their office, make their staff redundant and wind up their parliamentary financial affairs, we are consulting on whether to compensate former MPs for this work.

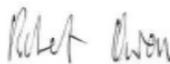
We consider the proposals here to be fair – they recognise the important work that MPs do on our behalf, while safeguarding the interests of the taxpayer. We would be interested to hear your views.



**Ruth  
Evans**



**Will  
Lifford**



**Sir Robert  
Owen**



**Jackie  
Smith**



**Rt Hon Jenny  
Willott**

## **Summary of consultation questions**

### **MPs' salary**

QUESTION 1: Do you agree that the current arrangements for MPs' salary are appropriate?

QUESTION 2: Do you have any other comments about the way MPs' salary is determined?

### **Additional salary for Committee Chairs**

QUESTION 3: Do you agree that the current arrangements for the additional salary paid to Chairs of Select Committees and Members of the Panel of Chairs are appropriate?

QUESTION 4: Do you have any other comments on how the additional salary for MPs who are Chairs of Select Committees or Members of the Panel of Chairs is determined?

### **Loss of Office Payments**

QUESTION 5: Do you think that an amount equal to two months' net (take home) salary should be paid in addition to Loss of Office payments to former MPs who have lost their seats?

QUESTION 6: Do you think that former MPs who stand down at a snap General Election, but not at a planned General Election, should also be entitled to the equivalent of two months' net salary?

QUESTION 7: Are there any other changes that we should make to the arrangements for Loss of Office payments?

### **MPs' pensions**

QUESTION 8: Do you agree that the principles for the current review of MPs' pensions are the right ones?

QUESTION 9: Do you agree that the CARE section of the MPs' pension scheme should be changed to provide a higher lump sum, equal to four times annual salary, payable to an MP's beneficiaries in the event that the MP is killed in the line of duty?

QUESTION 10: Do you agree that the final salary section of the pension scheme should be amended to extend the same survivors' pensions to unmarried partners of all members, regardless of when they ceased to be active members of the scheme?

QUESTION 11: Do you think that members with full transitional protection should be able to opt to move into the CARE section?

QUESTION 12: Do you think that members with partial transitional protection should be able to opt to move into the CARE section?

QUESTION 13: Do you think that the MPs' pension scheme (CARE section) should be aligned with the Civil Service pension scheme in respect of application of the annual cap on the amount of Added Pension and reduction in Effective Pension Age?

QUESTION 14: Do you agree that CARE section members should be able to purchase a reduction in Effective Pension Age in non-integer amounts?

QUESTION 15: Do you think members of the final salary section of the MPs' pension scheme should be allowed to purchase Added Pension?

QUESTION 16: Do you have a view on how the limits should apply to MPs with multiple periods of service within the final salary section?

QUESTION 17: Do you agree that the CARE section rules about revaluation and increases to pensions in payment should be clarified in respect of how negative inflation should be applied?

QUESTION 18: Do you agree that the calculation mechanisms in this part of the final salary section rules should be amended so that they are clearer and easier to implement?

QUESTION 19: Do you agree that the definition of 'FS Deferred Pensioners' should be amended to make clear that this category includes two types of individuals, those who are also active members under the CARE section and those who are not?

QUESTION 20: Do you agree that the final salary section rules should be amended to make clear that CARE section members who retire on ill-health grounds, should also be entitled to take ill-health retirement benefits that they have previously accrued under the final salary section?

QUESTION 21: Do you agree that we should seek to make corrections where the pension scheme rules do not reflect the intention, or where they are based on or refer to other defunct provisions?

QUESTION 22: Do you have any other comments about the MPs' pension scheme?

### **Equality and diversity**

QUESTION 23: What likely or actual impact do you believe the current arrangements and/or the changes proposed in this consultation may have on equality and diversity in relation to MPs?

## 1 Introduction

1. This consultation document sets out proposals in relation to MPs' remuneration – that is, their salary, pensions and the payments they receive upon losing office.
2. The Independent Parliamentary Standards Authority (IPSA) is the regulator of business costs and expenses for Members of Parliament in the UK. Our founding legislation gives us a dual role: to ensure that MPs are resourced appropriately to carry out their parliamentary functions; and to ensure that MPs' use of taxpayers' money is transparent and well regulated.
3. In addition to setting rules for MPs' business costs and expenses, we also have the responsibility for setting their pay and pensions and the administrative function of paying their salaries.
4. We introduced a reformed package covering MPs' remuneration in 2015. This was the first time that the question of MPs' remuneration had been resolved by an independent body. By providing a methodology for automatic annual adjustments to the MPs' salary, following an initial adjustment, we aimed to create a settlement that would last for years to come.
5. However, we have a statutory duty to review MPs' remuneration in the first year of each Parliament. In consulting now we are fulfilling the requirement to do so by June 2018, a year after the last General Election in June 2017. This gives us the opportunity to take stock and gather feedback on the current arrangements for MPs' salaries, pensions, and payments received upon losing office.
6. We are seeking responses from the public, MPs and other interested parties to help us decide whether there is a case for change in any of these areas.

### About MPs' pay and pensions

7. All MPs (as long as they have taken the Oath in Parliament) currently receive a basic annual salary of £77,379, which is paid monthly in arrears. Like employees in other walks of life, MPs pay income tax and national insurance through the PAYE system.
8. MPs who take on extra responsibilities as Select Committee Chairs or Members of the Panel of Chairs receive an additional salary amount of £15,509. Some MPs also become Ministers and receive extra payments for those roles, but the level of these are determined by the Government, not by IPSA.
9. On election, MPs are entitled to join the MPs' pension scheme, which provides a pension from the greater of age 65 or state pension age (or when the MP leaves Parliament, if later). MPs pay contributions to the pension scheme at the rate of 11.09% of their basic salary; and accrue benefits on the basis of their career average revalued earnings (CARE) at the rate of accrual of 1/51<sup>st</sup> of basic salary per year. Some MPs also remain in the older

section of the scheme, which allows them to accrue pension benefits based on their final salary.

10. MPs who lose their seats at an election are entitled to a Loss of Office payment (LOOP), equal to twice their statutory redundancy entitlement. This means that LOOP amounts vary depending on an individual's age and length of service. MPs with fewer than two years' continuous service are not entitled to any payment, in line with employment legislation that applies across the country. For tax purposes, LOOP is treated in the same way as a normal redundancy payment and no tax is payable on the first £30,000.

### **What we did before**

11. Between 1911, when MPs first received remuneration, and 2010, when IPSA was established, MPs made decisions about their own pay. Proposals to increase pay were normally met with strong public opposition, which meant that MPs were reluctant to vote for them. When bodies such as the Senior Salaries Review Board (SSRB) made recommendations that MPs' pay should increase, Parliament would, in most instances, agree to phased or more modest increases. This situation meant that, over time, MPs' pay was artificially suppressed and did not keep up with inflation or other economic factors.
12. In 2010, after the MPs' expenses scandal, Parliament moved to change this situation and, for the first time, gave the power to decide on MPs' remuneration to an independent body. The Constitutional Reform and Governance Act 2010 amended the Parliamentary Standards Act 2009, giving this power to IPSA.
13. These powers came into force in 2011, and IPSA embarked on a period of extensive review, looking at MPs' remuneration in the round – taking into account the total package that MPs receive: pay, pensions and expenses.
14. From the beginning, the review was conducted according to a set of principles: 1) MPs should be fairly remunerated; 2) the total cost should be affordable and fair; 3) remuneration should be seen as a whole package; 4) it should be simple to explain, understand and administer; 5) it should be sustainable; and 6) as far as is practicable, it should be determined in the same way as that for other citizens.
15. In October 2012 we launched an initial consultation, which asked open-ended questions about MPs' remuneration. Based on the responses we received from MPs, members of the public and other stakeholders, we published a report to set out a framework for future work.
16. In July 2013, we published a 'white paper' containing specific proposals for a reformed package of remuneration for MPs, and sought feedback on these specific proposals. In December 2013 we announced our decisions, but waited until the next Parliament, in May

2015, to implement the changes. MPs' pay was subject to a further consultation in June 2015 before any changes to salary were implemented.<sup>1</sup>

17. The main elements to the reformed remuneration package were as follows:
  - a one-off increase in MPs' salary of around 10% (to £74,000 from May 2015);
  - thereafter, annual adjustments to MPs' salary in line with average public sector earnings;
  - changes to MPs' pension benefits to align them with other public service pension schemes; and
  - reduction in the amounts former MPs could receive as resettlement payments (which were renamed 'Loss of Office payments') when they leave Parliament.
18. At the same time, we made some changes to tighten MPs' business costs rules further and also invited MPs to produce an annual commentary, in order to help members of the public understand their expenditure and how they were carrying out their parliamentary roles with financial support from the taxpayer.
19. Later, in 2016, we completed our review of the additional salaries paid to Select Committee Chairs and Members of the Panel of Chairs.<sup>2</sup> From June 2016 we implemented our changes: a single rate of additional salary for all relevant MPs (as opposed to the previous tiered system that applied to Members of the Panel of Chairs, based on their experience), to be adjusted annually in line with the growth in public sector earnings, as for the MPs' basic salary.
20. This consultation document does not cover all of the research, engagement and other work that we did during the last review period. Detailed information on that work is available in the documents IPSA produced on MPs' remuneration between 2012 and 2016.

### **Scope of this review**

21. We are required by legislation to review MPs' salary in the first year of a Parliament (it was assumed, based on the Fixed Term Parliaments Act 2011, that this review would take place every five years.) We are mindful of the fact that the current package of remuneration for MPs came into effect just three years ago, in May 2015, and that this settlement was the product of several years' intensive research, opinion polling and consultation.
22. We therefore do not intend to reopen the question of MPs' salaries from first principles. As noted above, the settlement we implemented from 2015 was intended to be, insofar

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<sup>1</sup> The consultation documents published in February 2012, October 2012, July 2013 and July 2015 and subsequent reports can be found on IPSA's website:

<http://www.theipsa.org.uk/publications/consultations/review-of-mps-pay-and-pensions/>

<sup>2</sup> The consultation document and report relating to the review of Committee Chairs pay is also available here: <http://www.theipsa.org.uk/publications/consultations/review-of-mps-pay-and-pensions/>

as possible, a long-term solution. We remain of the view that the current arrangements are broadly appropriate and fair, but would like to hear from those who disagree with us, as well as those who agree.

23. We do however think there is a case for some changes to the arrangements for LOOP and a need to correct minor technical issues in the MPs' pension scheme. These proposed changes are explained in the sections below.

### **How to respond**

24. This consultation runs from **10 May to 15 June 2018**. You can respond via an online survey available at: <http://www.theipsa.org.uk/publications/consultations/>
25. You can also send your response by email to [consultation@theipsa.org.uk](mailto:consultation@theipsa.org.uk), or by post to:  
Consultation on MPs' remuneration, IPSA, 30 Millbank, London SW1P 4DU

## 2 MPs' salary

### Background

26. Prior to IPSA being given responsibility to determine MPs' pay and pensions, pay was a matter for Parliament alone. Over the preceding decades, there had been several reviews undertaken by the SSRB and others, which made recommendations about MPs' pay to the House of Commons. MPs were then required to vote on recommendations to increase their own pay.
27. For a variety of reasons, MPs did not always decide to accept pay increases in full, sometimes repeatedly deferring, declining or limiting them. This has meant that MPs' pay has often lagged behind that of others in the public sector and the rate of growth in national average earnings. This led to a situation where, when MPs did decide to accept a pay rise, with no automatic annual mechanism for adjustments, they needed to receive a significant increase to catch up. These upward spikes in pay which followed a period of stagnation were not always well understood or well received by the wider public.
28. By the time IPSA was given the power to regulate and pay MPs' salaries, in 2011, the salary figure was frozen at £65,738, as MPs had agreed to freeze pay for 2011-12 in line with the pay freeze across the public sector in place at the time. We decided to keep the salary frozen again in 2012-13, and following consultation provided a 1% increase in 2013-14 and in 2014-15, in line with the public sector pay policy then in place.
29. As this was the first time that the question of MPs' salary was to be answered by an independent body, we set out to conduct a thorough and comprehensive review of the issues.
30. Our initial work looked in detail at the background to the issue of MPs' pay, including the historical context. We could see that MPs' pay had fallen behind when compared with earnings in the rest of the economy. For example, the ratio of the MPs' salary to national average earnings had fallen from a long-term average of 3.16 to 2.70 by 2012. If it had been restored to 3.16, MPs' salary would have been £83,430 in 2015. Detailed information on how MPs' salary has changed over time in relation to average earnings is at **Appendix 1**.
31. We also considered the role of an MP. IPSA's position has always been that it is not for us to determine what the role of an MP should be; that is for MPs and ultimately for Parliament. Still, we thought it was important that the debate on MPs' pay should be informed by an understanding of what MPs do. Our work in this area demonstrated that there was no easy answer; views on the role of an MP varied considerably. It was also clear that MPs work in a variety of ways and differ in their attitude about what their key

priorities should be and how they should divide their time (for example, in Westminster or in the constituency).<sup>3</sup>

32. We launched a number of initiatives to invite the views of members of the public through a variety of means, including independent public opinion research, focus groups and citizens' juries, media interviews, and an interactive website with a survey, polls, blogs, and a comments board<sup>4</sup>. We received many emails and letters from the public and discussed our work with several academics active in this field, and co-hosted an expert seminar at the Institute for Government. The feedback from this work provided us with a valuable overview of the key issues and with suggestions for consideration as part of our review. Indeed, many of the ideas we included in the consultation came from members of the public.
33. We also sought views from MPs themselves. In addition to correspondence and discussions with individual MPs, YouGov conducted an anonymous survey of 100 MPs on our behalf in July 2013, which found that 69% of MPs considered themselves to be underpaid (at the time). They believed that the right level of pay for an MP, on average, should be around £86,000.
34. As part of this first consultation, we considered various ideas on differentiating pay between MPs, including pay based on performance, region, amount of time served in Parliament, MPs' outside earnings, or previous salary. In addition, we looked at pay based on comparisons with other countries' legislatures, and considered whether there was scope to base MPs' pay on a multiple of national average earnings.
35. We also looked at the salaries of other occupations which could be considered 'comparable' with the role of MPs. During our initial engagement with the public in 2012, people suggested a wide range of occupations they consider 'comparable' with the role of MPs. Commonly suggested comparators included public sector occupations (head teachers, GPs, senior civil servants, members of the armed forces or police officers); as well as others in the private sector (such as owners of small businesses, company

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<sup>3</sup> There had been several previous attempts to define the role of MPs. As part of its 2001 study of pay and allowances, the SSRB published a generic job description in which it set out its view of MPs' principal accountabilities. The three broad headings for the nature and scope of an MP's duties were participation in activities designed to assist in the passage of legislation and hold the Executive to account; work in and for the constituency; and work in support of the party to which the MP belongs, and on behalf of which they were elected. In 2006, the Select Committee on the Modernisation of the House of Commons examined the role of an MP and identified commonly recognised tasks, including: supporting their party in votes in Parliament; representing and furthering the interests of their constituency; representing individual constituents and taking up their problems and grievances; scrutinising and holding the Government to account; initiating, reviewing and amending legislation; and contributing to the development of policy.

<sup>4</sup> ComRes undertook public opinion polling on our behalf, with a four stage process: an online survey of 2,044 people, four focus groups in each national capital, two citizen juries in the North and South of England, and a final poll of 2,763 people.

directors and solicitors).<sup>5</sup> While it was useful to consider the salaries of other occupations for context, it was also in some ways problematic because of the unique nature of an MP's role and the huge variety in the approaches taken by MPs to their parliamentary and constituency functions.

### Current arrangements

36. Bearing all these factors in mind, we judged a salary of £74,000 a year to be an appropriate level. This was an increase of about 10% compared with its level then (£67,731). We announced the decision in December 2013. However, given the difficult economic circumstances at the time, we thought it was prudent to wait until the new Parliament in 2015 to confirm and implement the change.
37. In June 2015, one month after the election, we conducted another short consultation to ask whether there had been any changes in the intervening period which meant that we should reconsider the decision. We did not receive evidence that this was the case, and on 16 July 2015 we announced our final decision, with all MPs receiving the increased salary backdated to May 2015. We made a change to our original proposal for future indexation, linking MPs' pay to changes in average earnings in the public sector, rather than to those in the economy as a whole as previously proposed.<sup>6</sup>
38. This determination has provided for small adjustments to MPs' salary in 2016-17, 2017-18 and 2018-19, in line with the index of average earnings in the public sector, reported by the Office of National Statistics.

	Annual salary	% increase
2015-16	£74,000	10.3%
2016-17	£74,962	1.3%
2017-18	£76,011	1.4%
2018-19	£77,379	1.8%

### Question for consultation

39. We believe that the current arrangement for the MPs' salary continues to be appropriate. Although the way MPs are paid for their work can still sometimes be an issue of some controversy, we have found that, in the last couple of years, MPs, members of the public and the media have largely accepted IPSA's approach. The linking of future adjustments to

<sup>5</sup> Detailed analysis of salaries in comparable professions can be found in IPSA's consultation document published in October 2012, available here: <http://www.theipsa.org.uk/media/1415/mps-pay-and-pensions-consultation-paper-oct2012.pdf>.

<sup>6</sup> On 27 March 2018 the House of Lords adopted the same mechanism for determining annual changes to peers' allowances, with effect from 1 April 2018.

the index of average earnings in the public sector provides a straightforward mechanism which we believe has largely de-politicised annual decisions about MPs' pay.

40. We therefore propose to continue to adjust the MPs' salary in line with the annual change in public sector earnings, but not make any other change to the arrangements.
41. That said, we would like to know of any evidence that our approach to setting the MPs' salary is not appropriate.

**QUESTION 1: Do you agree that the current arrangements for MPs' salary are appropriate?**

**QUESTION 2: Do you have any other comments about the way MPs' salary is determined?**

### 3 Additional salary for Committee Chairs

#### Background

42. All MPs are paid the basic annual MPs' salary. However, some MPs with additional responsibilities also receive an additional amount on top of their basic salary. IPSA is responsible for setting the additional salaries paid to Chairs of Select Committees and Members of the Panel of Chairs.
43. The time commitment of Chairs varies across committees, depending on the issues under discussion at any time, but it can be significant, with media appearances, meetings and visits. Chairs can often be subject to a higher level of public scrutiny than other MPs.
44. The majority of Select Committee Chairs are elected by their fellow MPs. Select Committees scrutinise government spending, policy and administration. There is a House of Commons Select Committee for each government department; as well as other Select Committees with roles that cross departmental boundaries, such as the Public Accounts or Environmental Audit Committees. Depending on the issue under consideration, they can look at any or all of the government departments. Other Committees are involved in a range of on-going issues or investigations, including the administration of the House itself or allegations about the conduct of individual MPs.
45. Meanwhile, the Panel of Chairs comprises the Chairman and two Deputy Chairmen of Ways and Means and a group of other MPs (at least 10) who are assigned to work chairing parliamentary committees or meetings as and when required. MPs are appointed to be Members of the Panel by the Speaker. Members of the Panel may chair Public Bill Committees, formed to scrutinise specific items of legislation, and may also chair debates in Westminster Hall or, on occasion, in the main chamber of the House of Commons.
46. MPs are allowed to serve both as a Chair of a Select Committee and as a Member of the Panel of Chairs, but are only allowed to receive one additional salary. Currently (as of 30 April 2018) there are 37 MPs who receive an additional salary as Select Committee Chairs, and 37 MPs who receive an additional salary as Members of the Panel of Chairs.
47. Select Committee Chairs first began receiving an additional salary in 2003. Based on recommendations from the SSRB<sup>7</sup>, the House agreed to introduce an additional salary for Select Committee Chairs from the beginning of the 2003-04 session, at £12,500 per annum. For the first few years, this was uprated annually in line with the uprating formula applied to MPs' salaries at the time, and later it was impacted by various salary reviews.

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<sup>7</sup> To determine the level of the salary when it was first introduced, the SSRB evaluated the role of a Select Committee Chair, and compared it to that of a Parliamentary Under-Secretary of State. The SSRB recommended that Chairs of Select Committees should receive a lower additional salary compared to Parliamentary Under-Secretaries to reflect the lower time commitment needed in the Select Committee role. Until 2010, Parliamentary Under-Secretaries received an additional salary of £31,401 a year. Following various pay cuts, Under-Secretaries are now entitled to an annual supplement of £24,048 per annum.

48. In 2005, Parliament agreed to provide for an additional salary to be paid to Members of the Panel of Chairs. The House of Commons decided not to introduce a fixed rate of pay, because the workload of Members of the Panel was highly variable, but instead implemented a tiered salary structure based on an MP's length of service on the Panel (less than one year; between one and three years; between three and five years; and more than five years). The highest salary for Members of the Panel was set at the same level as the rate paid to Chairs of Select Committees at the time (£13,107). The incremental structure was implemented on the assumption that Members of the Panel with more experience took on more demanding duties.
49. Responsibility for setting and paying the additional salary for Chairs of Select Committees passed to IPSA in 2011. We considered whether to continue the current arrangements; make payments based on the time commitment of the Chair (such as on a fee-per-meeting basis); or make payments based on levels of responsibility. In July 2013, as part of the consultation on more detailed proposals for MPs' remuneration, we established a more developed view. We saw no compelling evidence from the consultation that changes were necessary to the flat-rate system of additional salary for Select Committee Chairs. However, based on a response from the then-Chairman of Ways and Means, we initially proposed that Panel members should serve a probationary period on a lower salary, after which they should all be put onto the top tier<sup>8</sup>.
50. Before coming to a final determination, we applied small increases of 1% to the additional salaries for Committee Chairs in 2013-14, 2014-15, and 2015-16.
51. Subsequently, in the first year of the Parliament following the May 2015 election, we carried out a full review of pay arrangements for Committee Chairs, and published a consultation in March 2016. For Chairs of Select Committees, we proposed retaining the current flat rate of pay (£15,025 at the time).
52. For Members of the Panel of Chairs, we proposed that the structure of additional salary payments should be streamlined to a single rate. We initially expressed a preference for calculating a single rate of pay by dividing the total annual amount currently spent on salaries by the number of Members of the Panel, resulting in a proposed salary of £9,600, on the basis that it would present no additional cost to the taxpayer (in the short term at least). However, this methodology would have produced somewhat arbitrary salary amounts, and it would vary from year to year as the cohort of Members of the Panel changed.
53. Instead, we concluded that the single salary rate for all Members of the Panel of Chairs should be set at what was the highest tier and equivalent to the additional salary paid to Select Committee Chairs (£15,025 at the time). This reflects the fact that, once Members of the Panel of Chairs have experience in the role, Parliament values their contribution equally to that of Select Committee Chairs. And while the work of Members of the Panel

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<sup>8</sup> This was based on the fact that, once Members of the Panel of Chairs had a certain amount of experience, they received equally time-consuming and challenging duties irrespective of length of service. The amount and complexity of the work and the availability of Members of the Panel made allocating tasks strictly in accordance with the four tiers impractical.

of Chairs can be less visible than that of Select Committee Chairs, it is no less valuable to the workings of Parliament.

### Current arrangements

54. IPSA's new determination on additional salary for Committee Chairs, which came into effect in June 2016, implemented these decisions. Similar to MPs' basic salaries, we linked future adjustments to the annual change in public sector earnings.
55. This determination has provided for small adjustments to the additional salary for Committee Chairs in 2016-17, 2017-18 and 2018-19, in line with the index of average earnings in the public sector.

	Annual salary	% increase
2016-17	£15,025	1.3%
2017-18	£15,235	1.4%
2018-19	£15,509	1.8%

### Questions for consultation

56. IPSA's determination on the additional salary for Committee Chairs is less than two years old, and we have not had any feedback or evidence to suggest it is not working. We therefore propose to continue with the current arrangements.
57. However, we would also like to know of any evidence in support of a change.

**QUESTION 3: Do you agree that the current arrangements for the additional salary paid to Chairs of Select Committees and Members of the Panel of Chairs are appropriate?**

**QUESTION 4: Do you have any other comments on how the additional salary for MPs who are Chairs of Select Committees or Members of the Panel of Chairs is determined?**

## 4 Loss of Office Payments

### Background

58. The Parliamentary Standards Act 2009 does not allow IPSA to pay a salary to former MPs. However, the act does give IPSA the power to make payments to former MPs 'in connection with a person's ceasing to be a member of the House of Commons'.
59. Payments made to MPs leaving Parliament were first introduced in 1971 after the Top Salaries Review Body recognised the need for a bridging arrangement to assist former MPs to establish themselves in a new career. They were regarded as akin to redundancy payments in the private sector and only paid to MPs who were defeated at an election.
60. Over the years, the eligibility and amount of the payments were extended, so that by the time of the 2010 General Election, they were available to all MPs who left Parliament, including those who retired voluntarily, and could be as much as 100% of an MP's annual salary. The payment was linked to the individual's age and the time served as an MP. As with normal redundancy payments, resettlement payments were exempt from tax up to the first £30,000.
61. In April 2012, after a short consultation the previous autumn, IPSA introduced an interim resettlement policy for the 2015 General Election which mirrored the scheme available for members of the National Assembly for Wales. It provided for a resettlement payment of one month's salary for every year of service in the House of Commons, up to a maximum of six months. As we did not consider it appropriate to fund MPs who decide to step down voluntarily, it was only available to an MP who stood for re-election to the same seat and was defeated.
62. We looked at the question of resettlement payments again as part of the wider review of MPs' remuneration between 2012 and 2015. In July 2013, we announced our decision to move to a system of LOOP, payments made to MPs who lose their seats, which would be equivalent to double an individual's statutory redundancy entitlement. The payment is based on statutory redundancy rules, which means that the amount depends on the MP's age and length of service. We decided that this new arrangement would come into effect from the next election after May 2015.
63. In 2016, we conducted a comprehensive review of our Scheme of MPs' Business Costs and Expenses. As part of this, we considered feedback we had received from MPs who felt that it was unfair to require a former MP to first complete all of the necessary arrangements to wind up their financial affairs – including for example issuing redundancy notices to staff; repaying outstanding debts to IPSA; and submitting all remaining expense claims – before receiving the LOOP to which they are entitled. The rules on LOOP were drafted in this way to provide an incentive for MPs to wind up their affairs, including fulfilling their responsibilities as employers, efficiently. MPs argued that, because they would no longer be receiving a salary, they needed some income while they concluded their parliamentary affairs. Some MPs also queried why outstanding debts could not be subtracted from their LOOP amounts, for administrative ease.

64. Based on this feedback and responses we received to the 2016 consultation, we decided to change the approach for future elections. IPSA's Scheme now allows MPs who lose their seats at an election to request payment of an amount equal to the remainder of that month's salary (which is deducted from their full LOOP entitlement). The remainder is then paid to them after they have completed all the necessary actions to wind up their financial affairs. Additionally, former MPs are able to request that outstanding debts be subtracted from the net amount of their LOOP.
65. As was the case previously, any MPs who decide to stand down from Parliament and not contest an election are not entitled to any such payments.

### **The 2017 General Election**

66. In 2013, we set out our proposals for changes to payments to MPs upon losing office, stating that they would come into effect at the next election after the May 2015 election. At the time, this was assumed to be in 2020, when most MPs elected in 2015 would have had at least five years' service.
67. The snap General Election in June 2017 meant that the parliamentary term ended after only two years, rather than five, so MPs who lost their seats were entitled to less than they might have expected. It also meant that one former MP, who had only 10 months' service, was not entitled to any LOOP, as would be the case for anyone with fewer than two years' service.
68. LOOP entitlements after the 2017 election ranged from just under £2,000 to just under £30,000, with an average of about £8,820. In contrast, the average payment after the 2015 General Election was £30,600.
69. Before the 2017 election, MPs expressed concern that the relatively low LOOP entitlements could cause significant financial difficulty for them or their colleagues. If MPs were to lose their seats, not only would they find themselves abruptly without any income (as we cease to pay MPs' salaries on the day of the poll), but they would need to work on winding up their parliamentary affairs for two months, unable to begin any new employment. Furthermore, because of the unexpected nature of the election, they would only have had six weeks' notice that losing their job was a possibility.
70. Many of those who lost their seats at the 2017 election requested and received the advance partial payment of their LOOP, equal to what they would have received as the rest of their June salary. But for a large number, in particular those who were first elected in 2015 and therefore had only two years' service as MPs, this advance payment left them with only a small amount at the end of the winding up period to tide them over until they could find new employment.

### **Questions for consultation**

71. We believe there is a case for increasing the financial support available for former MPs who have lost their seats at an election, while they are winding up their parliamentary

affairs. By law we cannot pay a salary to individuals who are no longer MPs. But it is arguably fair to recognise that we require former MPs to work for up to two months to wind up their financial affairs and close down their offices.

72. As such, we propose to provide an amount equal to two months' net salary for former MPs who have lost their seats. This would provide some income during the period when they are still expected to work on winding up their affairs, and when they may not be able to search for or begin any new employment.
73. The amount would be paid at the beginning of the winding up period. The former MP's LOOP would then be paid once they have finished winding up, repaid any outstanding amounts to IPSA, and completed all other required actions. Those former MPs who had less than two years' service would receive the amount equal to two months' net salary, but would not be entitled to receive any LOOP.
74. A payment equal to two months' net salary would be about £8,800<sup>9</sup>. The total additional cost would depend on the number who lose their seats at an election. If we use the 67 former MPs who lost their seats in 2017, the additional cost would be around £590,000.

**QUESTION 5: Do you think that an amount equal to two months' net (take home) salary should be paid in addition to Loss of Office payments for former MPs who have lost their seats?**

75. We currently pay no LOOP to MPs who choose to stand down instead of contest an election (or those who stand down midway through a term), on the basis that most people who choose to leave their employment do not get paid to do so. We do not propose to change this. And for those MPs who stand down at the end of a full-term five-year Parliament, we consider that they will have time to plan the winding down of their parliament affairs and transition to new employment (or retirement).
76. However, those MPs who choose to stand down at a 'snap' General Election (meaning an election outside of the normal five-year cycle) have had only six weeks' notice and therefore may not have had the time to plan their transition. It would arguably be fair to pay MPs who stand down at a snap election the equivalent of two months' net salary while they wind up their offices.
77. Based on the 31 MPs who stood down at the snap General Election in June 2017, this would have increased costs by around £273,000.

**QUESTION 6: Do you think that former MPs who stand down at a snap General Election, but not at a planned General Election, should also be entitled to the equivalent of two months' net salary?**

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<sup>9</sup> This is a rounded figure using the basic MPs' salary in 2018-19, with standard tax and National Insurance deductions.

**QUESTION 7: Are there any other changes that we should make to the arrangements for Loss of Office payments?**

## 5 MPs' pensions

78. The MPs' pension scheme, the Parliamentary Contributory Pension Fund (PCPF), has two parts: a historical section which allows longstanding MPs to accrue benefits based on their final salary (the 'final salary section'); and a new section, put in place by IPSA in 2015, which allows newer MPs to accrue benefits on the basis of career average revalued earnings (the 'CARE section'). Both sections currently have contributing members, because when the CARE section came into effect in 2015, those MPs closest to retirement age retained transitional protection which allowed them to continue to accrue benefits in the final salary section.
79. IPSA is responsible for setting the rules of the MPs' pension scheme. Meanwhile, decisions regarding the management and investment of assets of the PCPF are the responsibility of the Board of Trustees, and day-to-day administration is carried out by a team within the House of Commons.

### Background

80. In the past, the majority of public service pension arrangements were final salary schemes. The last decade has seen a shift away from final salary schemes, due to rising costs, which were considered to be shared unfairly between employees, employers and taxpayers.
81. In 2011 the Independent Public Service Pensions Commission (also known as the 'Hutton Commission') made recommendations to ensure public service pension arrangements were sustainable and affordable in the long term; fair to the public sector workforce and the taxpayer; and consistent with fiscal challenges ahead, while protecting accrued rights. Key recommendations in the report included that public service schemes should move to a CARE-based model, and that the pension age should be linked to the state pension age (subject to a minimum of age 65)<sup>10</sup>. The Government accepted the report's recommendations and, through the Public Service Pensions Act 2013, legislated for a framework enabling the introduction of new public service pension schemes from April 2015.
82. In October 2012, IPSA set out options for the creation of a reformed MPs' pension scheme which would be aligned with the changes taking place elsewhere in the public sector. A large driver for reform was cost to the taxpayer. We noted at the time that between 1999 and 2012, costs of the MPs' pension scheme had increased by nearly 50% due to an increase in the accrual rate, increased longevity, poor investment returns and other factors. In 2012, the scheme cost 32.4% of payroll (£13.6 million per year)<sup>11</sup>.
83. We used the Government's Reference Scheme as the basis for development of a new CARE section of the MPs' pension scheme. Recognising the very high costs of the final

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<sup>10</sup> With the exception of pensions for the armed forces, police and firefighters.

<sup>11</sup> This was compared with an average of 21.6% for the other main public service schemes. MPs paid 37.04% of these costs through their contributions, while the taxpayer funded the remaining 62.96%.

salary scheme for both MPs and the taxpayer, we aimed to reduce costs in the new CARE section of the scheme to 22.9% of salaries.<sup>12</sup>

84. This was a key part of the new package for MPs' remuneration which we proposed in July 2013. The new CARE section applies to service from May 2015 onwards (except for those MPs with transitional protection).

### Key reforms

85. The new CARE section is less generous than the final salary section. We judged, following consultation, that it was appropriate for MPs to bear 46% of the cost, versus 54% to be borne by the taxpayer (whereas previously MPs had borne around 34% of the cost). IPSA's intention was for the MPs' scheme to be, as far as appropriate, aligned with other public service schemes and in particular the Civil Service pension scheme, although we made decisions based on what we believed was appropriate for the MPs' scheme itself.
86. Some of the key differences between the two parts of the pension scheme are outlined below. A table for comparison is also set out at **Appendix 2**.
87. All MPs elected for the first time in the May 2015 election were automatically put into the CARE scheme (unless they opted out or benefited from transitional protection). Those who were age 55 or over on 1 April 2013 benefited from full transitional protection, meaning they would continue to contribute and accrue pension under the final salary section for the remainder of their service. Those who were between 51 and a half and 55 years of age benefited from protection for a certain amount of time before transferring to the CARE section. All benefits accrued under the final salary section before 8 May 2015 were protected.
88. Under the final salary section, MPs accrue pension benefits calculated as a certain proportion of their salary at retirement for each year of service. They have flexibility to choose a contribution rate, which is linked to a rate of accrual, as follows:
- 7.75% contribution rate for 1/60<sup>th</sup> accrual rate
  - 9.75% contribution rate for 1/50<sup>th</sup> accrual rate
  - 13.75% contribution rate for 1/40<sup>th</sup> accrual rate.
89. In the CARE section, MPs accrue pension benefits based on a proportion of their salary for each year of service, with each year's benefit added together to provide the final benefit at retirement. The benefit accrued is revalued each year to ensure it is not eroded by inflation before it comes into payment. MPs pay a flat contribution rate of 11.09% from their pay and accrue an amount equal to 1/51<sup>st</sup> of their basic salary per year of service.
90. Under the final salary section, MPs can retire and receive their pension from age 65. Pensions in respect of service before 6 May 2010 may also be paid for retirement before

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<sup>12</sup> This was close to the cost ceilings proposed by the Government for its reforms of the main public service pension schemes: 21.9% for the NHS scheme; 22.5% for the civil service scheme; 21.7% for the teachers' scheme and 20.4% for the local government scheme.

age 65, in some circumstances. Meanwhile, in the CARE section, retirement age is linked to state pension age, which could increase in future. In both sections, 'abated' (reduced) pensions may be payable from age 55.

91. Pensions for the spouses/partners, children and other dependants of deceased members are payable under both sections. Under the final salary section, pensions for spouses and adult dependants are payable at a rate of 5/8 of the deceased member's pension. Under the CARE section, the rate is 3/8 of the deceased member's pension.
92. Death-in-service benefits payable to dependants were significantly reduced in the CARE section. Under the final salary section, a lump sum equal to four times annual salary is paid to survivors. In addition, a spouse/dependant pension is payable of an amount equal to 5/8 of the pension the MP would have received if they had retired at 65. In the CARE section, the lump sum is equal to two times the MP's annual salary, and the spouse/dependant pension is equal to 3/8 of the pension the MP would have received if they had retired immediately before their death. The rules in the CARE section broadly mirror those in the Civil Service CARE scheme.

### **Principles for this review**

93. When IPSA developed the new CARE section in 2012-2014, we set out a number of principles to guide our decisions about the reformed scheme:
  - The 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, backgrounds and income levels.
  - The scheme must have an appropriate and fair balance of costs and risks between the member and the taxpayer.
  - The scheme must be sustainable and affordable in the short and long term and not require significant amendment for at least 25 years.
  - Any reforms to the MPs' pension scheme should protect accrued rights.
94. We believe that the reformed pension scheme, which we put in place in 2015, continues to be appropriate. There have not been any significant changes in other public service schemes which would warrant a fundamental re-examination of the MPs' pension scheme.
95. However, we have had feedback from stakeholders – the PCPF Trustees, the House of Commons pension unit and some MPs – that there may be a need to make some focused or technical changes to the pension scheme. Some of their proposals are about the benefits provided to MPs who are members of the pension scheme, while others are more technical clarifications and corrections in the rules to make the operation of the scheme easier.

96. We believe that the principles above should still apply to the current review of the MPs' pension scheme. In considering any further changes, we are proposing the following additional principles:
- As both the final salary and CARE sections of the MPs' pension scheme fall within IPSA's remit, we will consider changes to both.
  - The pension scheme rules should be as clear as possible, with minimal need for interpretation by the Trustees or House of Commons pensions unit.
  - The pension scheme rules should be amended to remove perverse consequences, meaning those which are contrary to the intention behind the rules.
  - The pension scheme rules should be amended to remove defects, meaning rules which make implementation of the scheme needlessly difficult.

**QUESTION 8: Do you agree that the principles for the current review of MPs' pensions are the right ones?**

#### **Payments for MPs who die in the line of duty**

97. As mentioned above, the MPs' pension scheme provides for lump sum payments and survivors' pensions in the event a scheme member dies while in service. These are lower in the CARE section, compared with the final salary section. Most notably, the lump sum payments in the CARE section were reduced to an amount equal to two times the MP's annual salary (as opposed to four times annual salary).
98. This change brings the CARE section of the MPs' pension scheme in line with other schemes in the public sector, such as the Civil Service.
99. However, the level of death-in-service payments has become the subject of discussion again in light of the murder of Jo Cox in June 2016. In other walks of life, injury benefit schemes provide for 'top up' payments to be made in circumstances where an employee has been injured (and therefore is not able to work) or killed in circumstances directly attributable to their employment. Some people have highlighted to us that there is no injury benefit scheme in place for MPs.
100. Injury benefit schemes exist in other parts of the public sector, including in the Civil Service. The Civil Service Injury Benefit Scheme (CSIBS) also applies to Ministers in respect of their ministerial duties.
101. We believe there is a gap in the provisions for MPs in this area, particularly when compared with other similar jobs, such as civil servants and Government Ministers.
102. We considered whether it was within IPSA's remit to establish an injury benefit scheme for MPs. Our conclusion was that IPSA's powers extend only to paying MPs directly, and not their family members or other beneficiaries. Therefore, we cannot legally establish a separate scheme which would provide benefits in the case of death in the line of duty.

Moreover, MPs who suffer injury but remain MPs would continue to receive their full salary, so a scheme designed to provide ‘top up’ payments for those injured at work is not necessary. Further, for those MPs who are unable to remain MPs because of the injury suffered, ill health retirement pensions may be payable from the PCPF, subject to certain criteria.

103. Instead, we are proposing to amend the CARE rules of the MPs’ pension scheme so that the lump sum death-in-service payment would be increased in cases where the MP has died in certain circumstances defined as ‘in the line of duty’.<sup>13</sup> We believe there is a case for increasing death-in-service lump sum payments in the CARE section to four times annual salary (in other words, equal to the level of payments provided by the final salary section), where an MP has been killed in the line of duty.
104. Using the pension scheme as the vehicle for this change would have the advantage of an existing Board of Trustees and staff within the House of Commons to administer the scheme.
105. At the same time, we recognise that there may be some possible drawbacks with this approach. For one, it would necessitate the pension fund Trustees to make judgements about whether an MP’s death occurred in circumstances as defined in the pension scheme as ‘in the line of duty’. This would be a difficult and sensitive task.
106. Larger lump sum death-in-service benefits could have adverse tax consequences where the MP in question was at or near the lifetime allowance for pension savings. This could result in the payment made to a beneficiary being reduced by a lifetime allowance charge.
107. Additionally, the enhanced death-in-service payments would only be available in respect of MPs who were members of the pension scheme, so MPs who had opted out of the pension scheme would be at a disadvantage (as they are not entitled to death-in-service payments in any circumstances). In addition, there would continue to be inconsistency between those MPs with transitional protection in the final salary section – where the death-in-service lump sum payable to their beneficiaries remains at four times annual salary regardless of the circumstances of their death – and those in the CARE section – where the proposed increased lump sum payment would apply only to deaths which occur in certain circumstances. (For deaths not attributable to the MP’s role, the death-in-service lump sum under the CARE section would still be twice annual salary.)
108. We do however believe that there is a case for providing such enhanced lump sum payments in respect of MPs who are members of the CARE section of the pension scheme, and we are interested to hear stakeholders’ views on the issue.

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<sup>13</sup> From a tax law perspective, it would not be possible to include benefits for injury in the line of duty within the MPs’ pension scheme. Such payments do not fall within the list of ‘authorised payments’ set out in the Finance Act 2004.

**QUESTION 9: Do you agree that the CARE section of the MPs' pension scheme should be changed to provide a higher lump sum, equal to four times annual salary, payable to an MP's beneficiaries in the event that the MP is killed in the line of duty?**

### **Other possible changes to benefit design**

109. The issues below have been raised with us by the PCPF Trustees and relate to potential changes to the benefits that pension scheme members would be entitled to under the final salary or CARE sections. Most are relatively minor points, but would have some cost implications.
110. We have indicated where we currently believe there is a case for change. However, we would welcome views on all of these issues, which we will consider when making final decisions.

### Survivors' pensions for unmarried partners where the member left service before 2004

111. This is an issue in the final salary section only. Changes to the pre-existing regulations in 2004 meant that pensions for surviving unmarried partners are payable only in relation to those who were active members in the scheme from 3 November 2004. Where a member left service before that date, survivors' pensions are only payable to surviving spouses and children. The way the change was implemented created a 'cliff edge' for members with unmarried partners who left service before 3 November 2004.
112. There is no legal reason why the relevant scheme provisions cannot be changed; it is common now to provide the same death benefits for married and unmarried partners.
113. We believe that the current arrangements create an inequitable situation for a relatively small number of deferred and pensioner members. Therefore we are consulting on changes which would extend the same survivors' pensions to unmarried partners of all members, regardless of when they ceased to be active members of the scheme.

**QUESTION 10: Do you agree that the final salary section of the pension scheme should be amended to extend the same survivors' pensions to unmarried partners of all members, regardless of when they ceased to be active members of the scheme?**

### Ability for fully protected members to opt for membership of the CARE section

114. At the time the CARE section commenced in May 2015, some MPs benefited from full transitional protection<sup>14</sup> in the final salary section. They were not given the option to join the CARE section when it was introduced, and according to the PCPF rules will not be able

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<sup>14</sup> 'Fully protected members' are individuals who were MPs both on 1 April 2013 and immediately before 1 April 2015; who were at least 55 years of age on 1 April 2013; and who have not ceased to meet the eligibility criteria.

to join the CARE section so long as they continue to meet the eligibility criteria for full transitional protection in the final salary section.

115. The PCPF Trustees would like IPSA to consider allowing fully protected members to opt for CARE section membership, for instance, during a defined window of opportunity.
116. There are different reasons why a fully protected final salary member may want to move to the CARE section. For example, this might benefit members who have reached the maximum permitted number of years of accrual under the final salary section.
117. This issue was considered previously when the CARE section was being developed, and IPSA chose not to incorporate a provision to allow fully protected members the option of choosing to be in the CARE section. This was partially on cost grounds; and because such provisions are not available in the other reformed public service pension schemes.
118. We do not currently think there is a case for making this change now. However we are interested to hear arguments for allowing this.

**QUESTION 11: Do you think that members with full transitional protection should be able to opt to move into the CARE section?**

#### Ability for partially protected members to opt for membership of the CARE section

119. Some MPs benefit from partial transitional protection in the final salary section.<sup>15</sup> Partially protected members were given the option to elect to join the CARE section during a three-month period from 8 May 2015. Subsequently, however, individuals who are classified as partially protected members are not eligible to join the CARE section while they meet the eligibility criteria for membership of the final salary section. MPs who were not re-elected in 2015, but were subsequently re-elected in 2017 were not given that opportunity either.
120. Furthermore, the rules state that those who are out of Parliament for five years and three months lose their (full or partial) transitional protection. But those elected in 2017 who qualified as partially protected members, and who had been out of Parliament for just over two years, were automatically put back in the final salary section with no option to move to the CARE section.
121. The PCPF Trustees believe that the inability of MPs returning to Parliament between 2017 and 2020 to opt for CARE section membership was not intended. The rules were drafted on the assumption of a fixed-term five-year Parliament, and refer to a number of years, rather than parliamentary terms or elections.

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<sup>15</sup> 'Partially protected members' are those who were MPs on 1 April 2013 and immediately before 1 April 2015; who were aged at least 51 years and 6 months, but under age 55, on 1 April 2013; and who have not ceased to meet the eligibility criteria.

122. As with the question above about members with full transitional protection, we considered this during the previous review, when the CARE section was being developed. At that time, we chose not to incorporate a rule allowing partially protected members to move into the CARE section (other than during a three-month period from 8 May 2015).
123. We do not currently think there is a case for making this change now. However we are interested to hear arguments for allowing this.

**QUESTION 12: Do you think that members with partial transitional protection should be able to opt to move into the CARE section?**

Annual cap on purchases of Added Pension and reduction in Effective Pension Age

124. Under the CARE section, members can pay additional contributions to purchase additional pension benefits and/or a reduced normal retirement date. This is subject to a maximum per year.<sup>16</sup>
125. This is inconsistent with the Civil Service pension scheme. The limits in the Civil Service scheme apply to the amount of additional pension and the value of reduced normal retirement date cumulatively; however if no additional pension is being purchased, there is no limit on the value of the reduced normal retirement date which may be purchased. Meanwhile, the CARE section of the MPs' scheme limits the reduced normal retirement date which may be purchased, even if no additional pension is being purchased.
126. The intention when setting up the CARE section of the MPs' pension scheme was that it would largely mirror the provisions of the Civil Service pension scheme, although there were some differences where it was appropriate for the membership of the scheme. Our initial view is that inconsistency between the two pension schemes alone is not a sufficient reason for making changes to the MPs' scheme. However, we would welcome views on this issue.

**QUESTION 13: Do you think that the MPs' pension scheme (CARE section) should be aligned with the Civil Service pension scheme in respect of application of the annual cap on the amount of Added Pension and reduction in Effective Pension Age?**

Ability to purchase reduction in Effective Pension Age in non-integer year amounts

127. In the CARE section of the MPs' pension scheme, normal retirement date is linked to state pension age. The state pension age can vary and, in some cases, not be a round number of years (for example, 66 years and 6 months). Members can make additional payments to

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<sup>16</sup> The total of a CARE section member's additional pension and the value of the increase to his pension due to his reduced normal retirement date may not exceed: £6,500 for the year ending on 31 March 2016; or in respect of any subsequent year, the maximum amount for the previous year, increased by the percentage increase in CPI during a 12-month reference period chosen by the Trustees.

have an earlier normal retirement date, but this can only be done in integer (full) year amounts. At the same time, they cannot reduce their normal retirement date below age 65 in either scheme. So an MP with a state pension age of 66 years and six months would be able to reduce their Effective Pension Age to 65 years and six months, but not to 65 years.

128. This issue has been raised with us as another inconsistency with the Civil Service pension scheme. Those members of the Civil Service pension scheme whose state pension age includes a part year are allowed to purchase part-year reductions in normal retirement date.
129. We believe it is reasonable to allow CARE section members to purchase a reduction in Effective Pension Age in non-integer amounts, so that in future individuals with a state pension age which includes part years will be able to reduce this to age 65 (or another integer).

**QUESTION 14: Do you agree that CARE section members should be able to purchase a reduction in Effective Pension Age in non-integer amounts?**

#### Purchase of Added Pension by protected members

130. Pension scheme members with transitional protection in the final salary section cannot purchase Added Pension. However, a final salary section member who elected to do so before April 2015 may purchase 'added years' of pensionable service to increase the amount of pension benefits payable upon retirement.
131. This is another issue which has been raised with us as being inconsistent with the Civil Service pension scheme. Any active member of the Civil Service pension scheme can pay additional member contributions to buy a separate additional pension that can be paid in full at the same time as their main pension.
132. As with other issues set out above, we do not consider the fact that there is a difference between the MPs' pension scheme and the Civil Service pension scheme, alone, to be a compelling reason for change. However, we would welcome views on this issue.

**QUESTION 15: Do you think members of the final salary section of the MPs' pension scheme should be allowed to purchase Added Pension?**

#### **Clarifications**

133. The points below relate to parts of the final salary and/or CARE sections of the MPs' pension scheme where there is uncertainty about how the rules should be implemented, because of the way they are drafted. The proposals that follow therefore suggest clarifications to the wording of the scheme to enable its effective administration, and to ensure the intention of the pension scheme is easier to understand. Although these

changes have no significant financial impact and do not change the benefits payable, we are consulting on them for reasons of transparency.

#### Application of pension limits to members with multiple period of service

134. The final salary section of the MPs' pension scheme applies limits on the amount of benefit which may be accrued and paid.<sup>17</sup> However, we have been told there is uncertainty about how these limits should be applied to members with more than one period of service (e.g. MPs who have left Parliament and later returned at an election). The rules are largely silent on this.
135. For instance, for members who leave service, do not receive any pension and then return to service, the default position is that the periods of service are amalgamated and treated as one. There is an option for members to have their separate periods of service treated as providing separate benefits. What is not clear from the final salary section rules is whether the limits on the amounts of pensions and lump sums should apply separately to each period of service, or to the totality of an individual's service.
136. Where a member leaves service and receives pension benefits and then returns to service, it is not clear from the rules how the limits should apply to the second period of service. In practice, the House of Commons pensions unit administers the benefits on the basis that the limits are applied to the total service, with a deduction for pensions in payment. But this is not set out explicitly in the rules.
137. Further complications arise where a member has a second period of final salary section membership and is in receipt of final salary benefits which are already restricted by the limits. Individuals in these circumstances do not continue to accrue benefits through further years of service, but do still benefit from increased pensions because of the link to their final salary. However, the rules are silent on how the limits should apply to benefits accrued in this way.
138. We believe there is a need to clarify this part of the final salary section rules. Our initial view is that the scheme limits should apply to the total of a member's final salary section accrual across multiple periods of service. Where final salary section limits are applied separately to each period of service, there is a risk a situation could arise where they do not stop a member from aggregating benefits that are well in excess of the stated limits. This is clearly not the intention of the limits set out in the final salary section rules.

**QUESTION 16: Do you have a view on how the limits should apply to MPs with multiple periods of service within the final salary section?**

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<sup>17</sup> The limit is two-thirds of the 'Permitted Maximum'. From 2007/08 onwards this is equal to £108,000 increased by CPI from 2007/08 until the date the member leaves service.

### Calculation of revaluation and increases to pensions in payment

139. Statutory provisions which apply to the CARE section allow for increases and decreases (as appropriate) to be used in calculations, such as for the revaluation of CARE benefits and increases to pensions in payment.
140. However, there are inconsistencies in the CARE section rules; in some places the wording is clear that negative inflation would result in a decrease, whereas in other places the suggestion is that that negative inflation would not apply. A specific example is found in the rule which relates to revaluation of CARE benefits for active CARE members. It states that members' benefits are to be 'credited' each year with an amount equal to the 'revaluation percentage', defined as the 'increase or decrease in CPI published in the previous September'. Although this would appear to allow for decreases due to negative inflation, the word 'credited' implies that only increases in CPI should be applied.
141. We agree that there is a need to clarify these rules. The starting point should be the equivalent rules in the Civil Service and Ministers' schemes.

**QUESTION 17: Do you agree that the CARE section rules about revaluation and increases to pensions in payment should be clarified in respect of how negative inflation should be applied?**

### Various provisions of final salary section rules which are extremely complex could be simplified

142. The final salary section rules contain provisions which provide a guarantee (the 'guarantee shortfall') in relation to benefits payable upon the death of certain members. The purpose of the guarantee shortfall is broadly that the total benefits payable upon the death of a member who has opted out of service in the final salary section, but remains an MP, are not to be less than the benefits which would have been payable had the member died the day before his or her 75th birthday.
143. The mechanisms for calculating this are extremely complex. This means that in some individual cases it may not be clear what benefits are payable. We believe it would be sensible to simplify the relevant rules as much as possible.

**QUESTION 18: Do you agree that the calculation mechanisms in this part of the final salary section rules should be amended so that they are clearer and easier to implement?**

### Definition of 'FS Deferred Pensioner'

144. Final salary section members are split into three groups:
- Final Salary (FS) Participants (active members);
  - FS Deferred Pensioners (deferred members); and

- FS Pensioners (those in receipt of a pension).
145. These definitions do not work for various provisions in the scheme rules and would benefit from being tightened. For example, FS Deferred Pensioners may, or may not, also be CARE active members.
146. It would be beneficial to amend the definition of FS Deferred Pensioners in order that a distinction can be drawn between these two categories – i.e. those who are also CARE active members and those who are not – and the different benefits which are payable in some circumstances.

**QUESTION 19: Do you agree that the definition of ‘FS Deferred Pensioners’ should be amended to make clear that this category includes two types of individuals, those who are also active members under the CARE section and those who are not?**

Calculating final salary benefits where retiring from CARE active membership on ill health grounds

147. A CARE active member who is either partially or totally incapacitated and who satisfies the conditions for allowing early retirement on ill-health grounds may apply for payment of an immediate unreduced early retirement pension.
148. The rules on qualifying for ill-health pension are the same in the CARE section and the final salary section. However, the final salary section rules have no specific provisions detailing how final salary section benefits should be calculated and paid for a CARE active member who is retiring on ill-health grounds and who has previously accrued benefits under the final salary section.
149. The intention of the pension scheme rules was for active CARE section members who retire on ill-health grounds to be entitled to also take any final salary section benefits on ill-health grounds (but with no uplift to reflect the period between ill-health retirement and age 65). We are therefore proposing a change to clarify this.

**QUESTION 20: Do you agree that the final salary section rules should be amended to make clear that CARE section members who retire on ill-health grounds, should also be entitled to take ill-health retirement benefits that they have previously accrued under the final salary section?**

**Corrections**

150. There are a number of other technical issues which have been raised with us, primarily where the scheme rules could benefit from correction or updating. These corrections would not impact upon the benefits which MPs would accrue or receive. We will work closely with our

lawyers, the PCPF Trustees and the House of Commons pensions unit in making these amendments.

**QUESTION 21: Do you agree that we should seek to make corrections where the pension scheme rules do not reflect the intention, or where they are based on or refer to other defunct provisions?**

**QUESTION 22: Do you have any other comments about the MPs' pension scheme?**

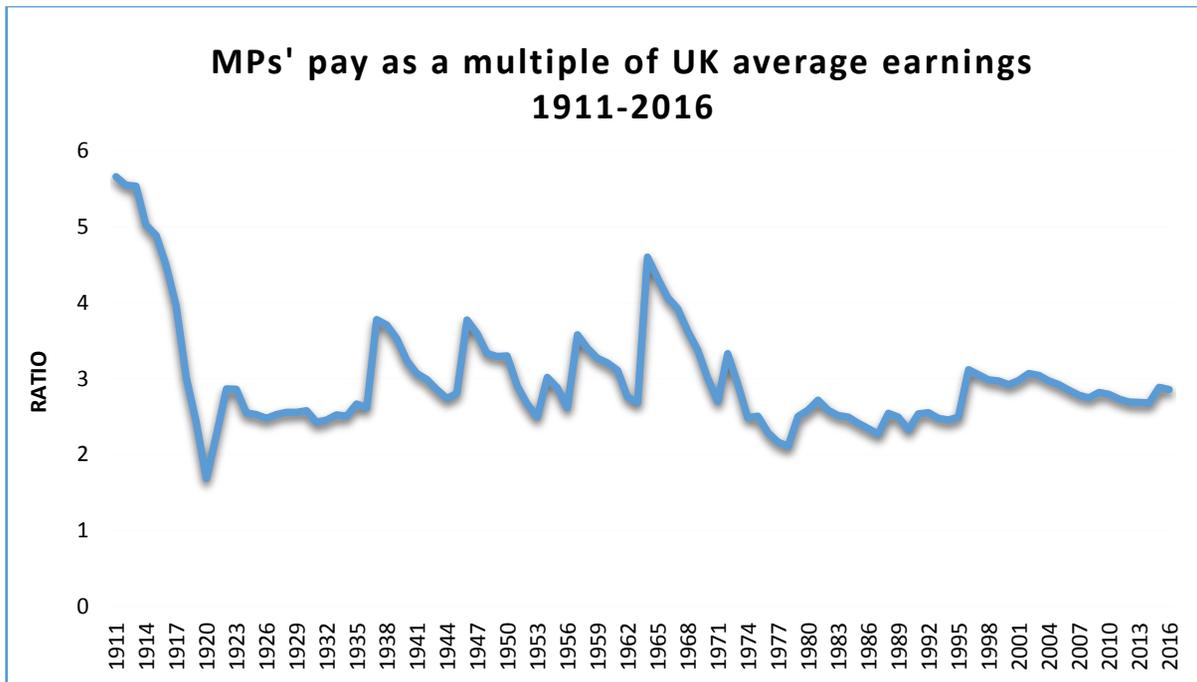
## 6 Equality and diversity

151. As part of this review, we will carry out an Equality Impact Assessment (EIA) to consider any likely or actual impacts of the changes that emerge from this consultation. We will review the impact of those changes on the 'protected characteristics' set out in the Equality Act 2010: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation. In addition, we will consider the extent, if any, to which the changes may affect the wider diversity of the House of Commons.
152. We welcome responses on how the current arrangements for the MPs' salary, additional salary for Committee Chairs, LOOP and the MPs' pension scheme are operating with regard to equality and diversity. We would also be interested to hear views on the impact on any of the changes proposed in this consultation document.

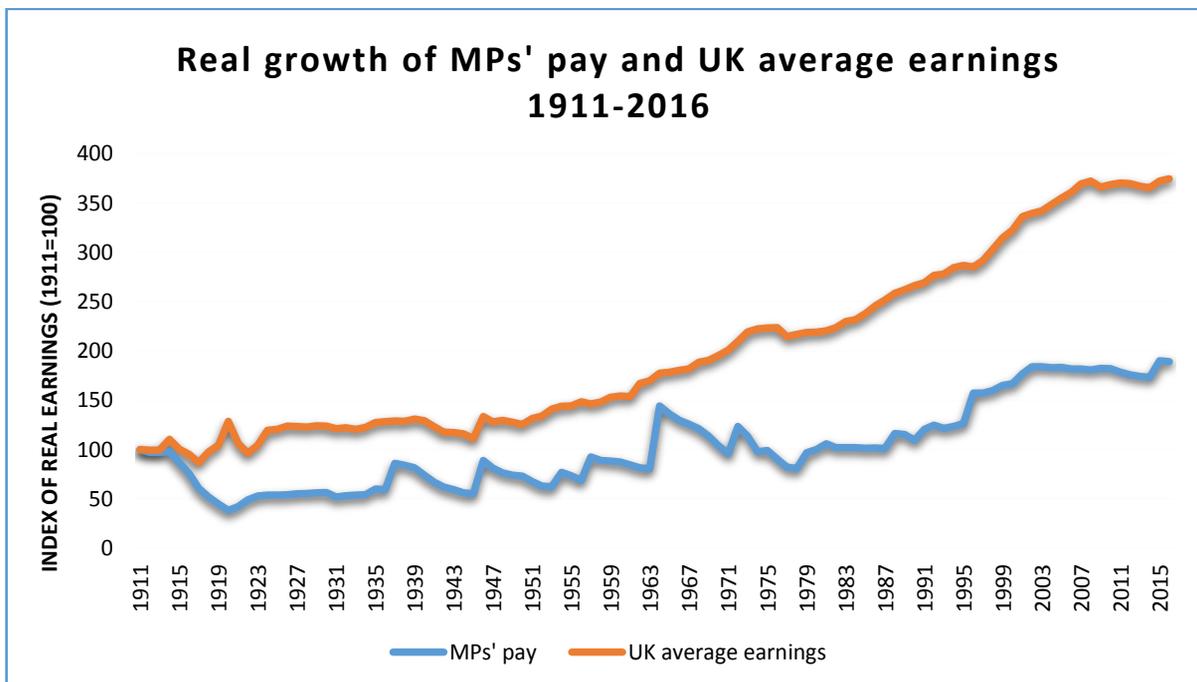
**QUESTION 23: What likely or actual impact do you believe the current arrangements and/or the changes proposed in this consultation may have on equality and diversity in relation to MPs?**

## Appendix 1: MPs' pay since 1911

**Figure 1:** This graph shows the change in MPs' pay as a multiple of UK average earnings since 1911 (the point at which MPs first started receiving remuneration), in the money of the day. We used MPs' pay data from the House of Commons Library and average earnings figures from the website [www.measuringworth.com](http://www.measuringworth.com), which has adapted the figures to provide a consistent time series. A GDP deflator time series to calculate the money of the day figures.



**Figure 2:** This graph shows the real terms growth of MPs' pay compared with that of UK average earnings since 1911. The sources of data were the same as for the figure above. Again, we used a GDP deflator time series to calculate the money of the day figures.



## Appendix 2: Comparison of key features of the final salary and CARE sections of the MPs' pension scheme

	Final salary section	CARE section
Accrual rates	Choice of accrual rates: 1/40 <sup>th</sup> , 1/50 <sup>th</sup> or 1/60 <sup>th</sup> , based on final salary	An accrual rate of 1/51 <sup>st</sup> of pensionable earnings, revalued annually in line with the Consumer Prices Index (CPI)
Contribution rates	Accrual rates matched by contribution rates of 13.75%, 9.75% and 7.75%, respectively	Just one level of pension contribution for all members: currently this is 11.09% of pay, but could vary with changes to the cost of the scheme
Normal retirement age	Normal Retirement Age of 65	Normal Pension Age equal to, and increasing in line with, State Pension Age
Dependant and child pensions	Dependants receive 5/8ths of pension, plus child pensions payable	Dependants eligible for a pension of 3/8ths of the member's pension, with child pensions also payable
Death-in-service benefits	Lump sum death benefit of 4 times salary	Lump sum death benefit of 2 times salary plus refund of member contributions
Early and late retirement	Provision for 'cost neutral' early retirement reductions but no late retirement increases available	Provision for 'cost neutral' early retirement reductions and late retirement increases to pensions
Ill health retirement	Options to retire early due to ill health	Options to retire early due to ill health
Buying additional pension	Option to buy added years or pay Additional Voluntary Contributions (AVCs)	Option to buy added pension, pay AVCs or buy a reduction in pension age
Cashing in for a lump sum	Age related factors used to calculate the amount of lump sum available	Option to exchange same pension for a tax-free lump sum at a fixed rate of £12 of lump sum bought for £1 of pension

