



Parliamentary Contributory Pension Fund

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The Parliamentary Contributory Pension Fund (PCPF) is a funded, final salary scheme, where Members and the Exchequer share the costs.

In January 2008 the Review Body on Senior Salaries (SSRB) recommended that any increase or decrease in pension cost pressures should be shared between the contributors and the Exchequer. It also recommended that the Exchequer contribution to the cost of benefit accrual should be limited to 20 per cent of payroll and that, if it was likely to rise above this level, there should be a major review of the Fund. These recommendations were endorsed in principle by the House. In June 2008, the Government Actuary's Department advised that the cost was likely to rise above 20 per cent, effectively triggering the need for a major review. On 25 June 2009, the House agreed to increase Member contribution rates and cap the Exchequer contribution, backdated to 1 April 2009. The Exchequer now contributes 20.2% of pay to fund accruing benefits and 8.5% to fund the deficit.

The SSRB published its report of the review of the PCPF in July 2010. In response, the Government said decisions on the future of the scheme should be informed by the recommendations of the Independent Public Service Pensions Commission, which had been set up to review public service pensions more broadly. The Government has accepted the recommendations of the Commission's final report, published in March 2011, as a basis for consultation with public sector unions and said it believed the House should recommend similar changes to the pensions of MPs. In line with other public service pensions, the CPI rather than the RPI is being used for the price indexation of PCPF pensions from April 2011.

Responsibility for oversight of MPs' pensions and certain Office Holders was transferred to the Independent Parliamentary Standards Authority (IPSA) on 24 October 2011. On 17 October, MPs agreed to a motion in the name of the Leader of the House, Sir George Young, expressing a view on how and when the PCPF should be reformed.

This note provides an overview of the PCPF and the current debate on how it should be reformed. The [Pensions of ministers and senior office holders](#) are covered in a separate note, SN 04586.

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1 Background

1.1 In brief

The Parliamentary Contributory Pension Fund (PCPF) is a funded, final salary pension scheme, the costs of which are met from Members' contributions, investment returns and an Exchequer contribution. It is contracted-out of the second tier of the State Pension. The main rules of the PCPF are in regulations made under sections 40 and Schedule 6 of the [Constitutional Reform and Governance Act 2010](#)(CRAG).¹

The PCPF is governed by the board of Trustees², who have delegated the day to day responsibility for the management and operation to the House of Commons Department of Finance. The day to day administration (record keeping, benefit calculations, fund accounting) of the PCPF is undertaken by a company called RPMI Ltd.

1.2 Main features of the scheme

The following is intended as an overview of the main provisions of the scheme.

Contributions

Members can opt to make contributions at one of three rates. Pension benefits build up at different rates, depending on the contribution rate chosen:

- Members contributing at 11.9 per cent accrue pension benefits at a rate of 1/40th of salary for each year of service;
- Members contributing at 7.9 per cent have an accrual rate of 1/50th;
- Members contributing at 5.9 per cent have an accrual rate of 1/60th.

The 1/50th accrual rate dates from 1983. The option of accruing benefits at a higher rate (1/40th), in return for an increased contribution rate was introduced in 2002 (see section 4.1 below). The option of accruing benefits at a lower rate (1/60th) in return for a reduced contribution rate was introduced in December 2009 (with an option to backdate to either April 2008 or April 2009). This was to assist Members affected by the "retrained benefits restriction" (see section 4.5 below).

With effect from 1 April 2009, the contribution rate was increased for all Members as part of an agreed package of cost-saving measures agreed by the House of Commons on 25 June 2009:

7.4 The agreed package of cost-saving changes includes an increase in member contribution rates from 10 to 11.9 per cent for a pension building up at an accrual rate of one-fortieth of final salary for each year of service, from 6 to 7.9 per cent for a pension building up at an accrual rate of one-fiftieth, and from 5.5 to 5.9 per cent for a pension building up at one-sixtieth.³

¹ section 40 and Schedule 6. This reproduces provisions previously in the *Parliamentary and Other Pensions Act 1987*. The main regulations setting out the rules of the scheme are in the *Parliamentary Pensions (Consolidation and Amendment) Regulations 1993* (SI 1993/3253), as amended

² The current trustees are Brian Donohoe MP (Chairman), Peter Lilley MP, Clive Betts MP, Sir Graham Bright, Lord Naseby, Andy Love MP, David Mowat MP, John Thurso MP. Appointment of two further trustees by IPSA and the Minister for the Civil Service is awaited. For a statement of Trustees' responsibilities, see [PCPF Account 2009-10, HC 660](#), p8

³ [Explanatory Memorandum to the Parliamentary Pensions \(Amendment\) \(No 2\) Regulations 2009 \(SI 2009 No. 3154\)](#)

An MPs' contributions to the Fund stop when they build up sufficient pensionable service to qualify for the maximum benefits that can be provided from the Fund, an MP who continues to serve after the age of 65 and has not built up the maximum possible benefit may continue to make contributions until they reach the maximum.⁴

The Exchequer contribution is based on a triennial valuation of the Fund by the Government Actuary.⁵ This is discussed in more detail in section 2 below.

Members' pension benefits

The pension received at the normal retirement age will be based on the length of pensionable service and the Member's final pensionable salary. For each year of pensionable service the Member will normally receive a pension of either 1/40th, 1/50th or 1/60th of their final pensionable salary, depending on the contribution rate they chose (see above). Once in payment, MPs' pension benefits are increased in line with the increase in the Consumer Prices Index (CPI) in the twelve months to the preceding 30 September.⁶

Members can choose to exchange part of their pension for a tax-free lump sum, normally with a maximum value of 25% of the capital value of the pension fund. Under the *Finance Act 2004*, lump sums paid to members who are beyond a year of their 75th birthday would be taxed.

There is a limit on the benefits the Fund can pay when a Member reaches retirement. This is normally two-thirds of salary less the value of any pension built up before entering the House, or, if greater a pension based on an overall pension build up rate of 1/60th of salary for each year of service. Until recently, this limit did not apply to member who joined before 1 June 1989 in respect of service after the age of 65, but this has now been changed:

The House agreed that the scheme's maximum pension limit should be applied to all scheme members. This means that those who joined the scheme before 1 June 1989 will no longer be able to make contributions to build up benefits after age 65 in excess of the two-thirds limit (benefits built up before 1 April 2009 will not be affected).⁷

A Member building up benefits at an accrual rate of 1/50th of salary would need some 33 years and 4 months service for a full MP's pension. Those contributing a higher percentage of earnings will need a shorter period of pensionable service to reach the maximum.⁸

An MP serving the average term of office of 15 years, paying contributions at 11.9% of pensionable pay (and, therefore, accruing benefits at a rate of 1/40th) would accrue a pension of around £22,500 pa (about 1/3rd of an MP's pay). The average pension in payment from the scheme is around £18,000 pa, including transfers in from other pension schemes and payments by MPs for "added years". Therefore, the average pension being paid that has been financed by a contribution from the Exchequer is estimated to be around £15,000 pa.⁹

Members of the Fund can increase their retirement benefits by purchasing extra years of pensionable service and paying additional voluntary contributions. Members are able to

⁴ *Parliamentary Contribution Pension Fund, Booklet for MPs, (Benefits when you retire)*

⁵ HC Deb, 25 April 2008, c2301W; *Parliamentary and Other Pensions Act 1987*, section three

⁶ *Social Security Pensions Act 1975*, sections 59 and 59A

⁷ [Explanatory Memorandum to The Parliamentary Pensions \(Amendment\) \(No 2\) Regulations 2009 \(SI 2009 No. 3154\)](#)

⁸ *Parliamentary Contributory Pension Fund. Booklet for MPs. Maximum Benefits*

⁹ Source: PCPF Secretariat

contribute a maximum of 10% of salary (in addition to their normal pension contributions) to purchase extra years or service, and/or up to 100% of their salary (less any other pension contributions) to the AVC scheme.¹⁰

Normal retirement age

Members of the PCPF can only draw their pension if they have ceased to be an MP, are not standing again for election as an MP, and do not hold a qualifying office as a paid minister or Office Holder. The normal retirement age in the PCPF is 65.¹¹

In line with the rules applying to pension schemes in general, the earliest age an MP can take their pension is 55.¹² In general, a pension drawn early can be reduced to reflect the fact that it is likely to be in payment for longer. However, Members elected before 4 November 2004 and retiring before or at the May 2010 General Election could draw an early retirement pension without any reduction being applied for early payment if they were aged 60 or above and their combined age and qualifying service under the scheme totalled 80 or more at date of retirement. When the House decided to phase out this retirement provision in 2004, it agreed that only qualifying service up to 1 April 2009 or the next General Election, whichever was later, would count towards the qualifying period for early retirement.¹³ For MPs with qualifying service of between 15 and 20 years as at the General Election on 6 May 2010, the more generous early retirement terms described above would apply only to service build up before that date.¹⁴

An MP who is still an active member of the Fund at the age of 75 may cease participation in the Fund, despite continuing as a Member of the House of Commons, a minister or other office holder, and take their tax-free lump sum at that point if they wish, with the accrued pension suspended until final retirement.¹⁵ The Member does not have to cease participation in the scheme but any benefits paid from the Fund after the Members 75th birthday would be subject to a high level of tax and contributions made after that age would receive no tax relief.

Ill-health benefits

An active Member of the Fund can apply for an ill-health pension if they cease to be an MP before the age of 65 and are not a candidate for election or an office holder. There are two tiers of ill-health pension. An application must include medical evidence and Trustees can require the Member to attend a medical examination. The Trustees must be satisfied that:

- the Member does not intend to seek re-election to the House or accept any future office which qualifies for pension under the Fund;
- the Member has ceased to be an MP as a direct consequence of his ill-health; and
- the Member is permanently incapable of undertaking the duties of an MP but is capable of undertaking other employment (lower tier); or

¹⁰ *Parliamentary Contributory Pension Fund. Booklet for MPs. Added Years and Additional Voluntary Contributions (AVCs)*

¹¹ *Parliamentary Pensions (Consolidation and Amendment) Regulations 1993 (SI 1993/3253), as amended regulation H3*

¹² *Finance Act 2004, Part 4; HMRC, [Pension tax relief and you](#), March 2010*

¹³ HC Deb, 30 October 2006, c22W

¹⁴ *Parliamentary Contribution Pension Fund, Booklet for MPs, (Benefits when you retire)*

¹⁵ *Parliamentary Pensions (Amendment) Regulations 2007. SI 2007, No 270. Explanatory Note*

- the Member is permanently incapable of undertaking any form of employment (upper tier).

Depending on which of the above criteria are fulfilled, the member is granted either an upper or lower tier ill-health pension. If the Member is granted an upper tier ill-health pension, an immediate ill-health early retirement pension is payable, based on the MP's final pensionable salary at the time of leaving the Fund and based on the pensionable service that would have been completed if the person had continued as an active Member until their 65th birthday.¹⁶ The usual minimum retirement age of 55 does not apply when taking ill-health retirement. If a Member is granted the lower tier ill-health pension, the pension is based on the MP's final pensionable salary and pensionable service at the date of leaving the Fund, but with no reduction for early payment.

The two tier ill-health pension system was introduced in 2009, with the lower level of benefits payable to those considered capable of undertaking other employment and provision introduced to review ill-health pensions periodically to see whether continued payment is still appropriate.¹⁷

Survivors' benefits

A lump sum death gratuity on death in service, equal to four times annual basic Parliamentary salary is payable at the Trustees' discretion. In addition, a spouse or surviving partner's pension is payable, at 5/8th of the prospective pension. Survivors' pensions are paid to both spouses and civil partners on the same basis. Unmarried partners will only receive a survivor's pension if they have been nominated using the Trustees' nomination form, and other requirements may apply, for example the proof of financial dependency or interdependency. A pension is also payable to dependent children, at the rate of 1/4 pension of the Member if there is one child, or 3/16th per child if there is more than one. There are a maximum of two children's pensions payable at one time.

Pension rights may be transferred in and out of the scheme and there is the option to purchase added years, and/or contribute to an AVC scheme with an outside provider, subject to certain limits on contributions/benefits.¹⁸

Pension increases

The legislation providing for annual increases of pensions from the PCPF is the same as that applying to other public service pension schemes. The *Pensions Increase Act 1971* and sections 59 and 59A of the *Social Security Pensions Act 1975* provide that "official pensions" are to be increased annually by the same percentage as the additional State Pension.¹⁹ The Secretary of State is required to uprate the additional State Pension (State Earnings Related Pension Scheme/State Second Pension) each tax year in line with the increase in prices over "review period." The legislation does not specify what measure of prices should be used – just that it should be the "general level of prices obtaining in Great Britain estimated in such manner as the Secretary of State thinks fit."²⁰ From the time the power was introduced until 2011, the benchmark for prices was the Retail Prices Index (RPI).²¹ However, the

¹⁶ *Parliamentary Contribution Pension Fund, Booklet for MPs*, (Ill health benefits)

¹⁷ [Parliamentary Pensions \(Amendment\) Regulations 2009 \(SI 2009/1920\)](#)

¹⁸ Parliamentary Contributory Pension Fund Accounts 2008-09, HC 524, page 6

¹⁹ The PCPF is included in the list of official pensions in Schedule 2 of the 1971 Act. HM Treasury, [A note on the operation of pensions increase legislation for public service pension schemes](#), 24 May 2001

²⁰ *Social Security Administration Act 1992*, section 150

²¹ HM Treasury, [A note on the operation of pensions increase legislation for public service pension schemes](#), 24 May 2001, Annex D

Conservative-Liberal Democrat Coalition Government announced in June 2010 that the Consumer Prices Index (CPI) would be used from April 2011. Accordingly, in April 2011, MPs' pensions (along with other public service pensions) were increased by 3.1% (i.e; in line with the increase in the CPI over the year to September 2010.)²²

1.3 Ministers and office holders

The pensions of ministers and certain office holders are provided by the Ministerial Section of the PCPF. The PCPF a Ministerial Section for Ministers, paid Select Committee Chairmen, paid members of the Chairman's Panel and paid office holders.

The MPs' Section and the Ministerial Section are identical in many respects. The main difference is that the final pension in the MPs' Section is calculated on final salary while that in the Ministerial Section it is effectively calculated on re-valued career average earnings. This takes account of the fact that ministers may be in office for one or several short periods at a time and that they may revert to being backbenchers for several years before they retire.

Ministers are members of both the MPs' Section and the Ministerial Section although Ministers who are Members of the House of Lords are only eligible to join the Ministerial Section. In the case of ministers only, their salary is their ministerial salary. The contribution and pension build up rates for the MPs' and Ministerial Sections are the same.

Different arrangements exist for the Prime Minister, Lord Chancellor and Speaker at present but this is subject to change for the Prime Minister and the Lord Chancellor. Their pensions are in fact ex-gratia awards, paid from the Consolidated Fund.

Pension arrangement for these positions are considered in a separate Standard Note, SN/BT/4586, [Pensions of ministers and senior office holders](#).

2 Costs and numbers

The number of beneficiaries of the PCPF are in the table below.²³

	31 March 2009	31 March 2010
Categories		
Active Members	657	646
Deferred Pensioners	180	164
Pensioners	864	876

The PCPF is a funded scheme, the costs of which are met from investment returns and contributions from Members and the Exchequer. The Government Actuary undertakes a triennial valuation in which he makes recommendations as to the necessary Exchequer contribution. This can rise or fall depending on factors such as predicted investment returns and longevity assumptions.²⁴

²² HM Treasury, [Budget 2010](#), June 2010, para 1.106; This is discussed in more detail in Library Standard Notes SN 05830 [The CPI – uprating benefits and pensions](#) and SN 05434, [Public Service Pension Increases](#)

²³ [Parliamentary Contributory Pension Fund Account 2009-2010](#), HC 660, 7 December 2010, page 2

²⁴ HC Deb, 25 April 2008, c2301W; Details of Exchequer contributions from 1978 to 2005-06 were provided in a Parliamentary Written Answer of October 2006 (HC Deb, 30 October 2006, c20-21W)

The 2002 valuation saw a significant increase to the Exchequer contribution due to a combination of a thirteen year contribution holiday and low investment returns.²⁵ The 2005 valuation assessed the deficit in the fund as being £49.5 million. The Exchequer share of the cost of accruing benefits was 18.1%. Additional Exchequer contributions of 8.7 per cent of payroll were needed to amortise the deficit in the fund. The contribution rate recommended to be paid by the Exchequer from 1 April 2006 was therefore 26.8% of the pensionable salaries of scheme members.²⁶

As at April 2008, the Government Actuary's Department (GAD) assessed the cost of accruing benefits for each year of membership as being 32.2% of Fund payroll. Member contributions were expected to average 9.1%. GAD therefore recommended that the Exchequer's share of the cost of accruing benefits should be 23.1%. However, because additional Exchequer contributions were needed to amortise the deficit in the PCPF, the recommended Exchequer contribution rate from 1 April 2009 was 31.6% of pensionable pay, less the cost of any changes to members' contributions or benefits as part of a cost-sharing or cost-capping mechanism:

1.4 Past Service Assessment The value of liabilities accrued up to the valuation date is assessed as £418.1 million. The value of the assets on the same date is assessed as £376.2 million using the market value method and £366.8 million using the discounted income method. The deficit at 1 April 2008 on the market value method is accordingly £50.9 million as set out below:

Value at 1 April 2008 (£ million)	
Liabilities	418.1
Assets	367.2
Deficit	50.9
Funding level (=assets/liabilities)	87.80%

1.5. The deficit of £50.9m at this valuation is marginally higher than the deficit of £49.5m at the 2005 valuation. The main areas where the experience of the scheme has differed from what was assumed in 2005 are investment returns, which were better than expected, and salary increases, which were lower than expected. The most important change to the assumptions is increased longevity, which largely offsets the positive experience of good investment returns and low pay increases.

1.6. Future Service Assessment The cost of benefits accruing in the PCPF for each year of membership is assessed as 32.2% of scheme payroll. This compares with an assessed cost of 27.4% of pay at the 2005 valuation, with the increase being primarily attributable to the changes made to longevity assumptions.

1.7 Members' contributions to the Fund are expected to average 9.1% of the scheme payroll, compared with 9.3% at the 2005 valuation. The Exchequer's share of the cost of accruing benefits is therefore assessed as 23.1% of payroll, compared with 18.1% at the 2005 valuation.

1.8 Recommended Exchequer Contribution Rate Exchequer contributions need to be at a higher level than the Exchequer's share of accruing benefits in order to amortise the deficit. Amortising the deficit of £50.9 m over a 15-year period results in an addition of 8.5% to the Exchequer's share of the cost.

²⁵ HC Deb 24 March 2003, cc 2-3WS

²⁶ *Parliamentary Contributory Pension Fund, Report by the Government Actuary on the Valuation as at 1 April 2005*, HC 979, 20 March 2006, para 1.8-1.10

1.9 Taking account of the Exchequer share of future service costs (23.1% of pay) and of the additional contributions needed to meet the deficit (8.5% of pay), I recommend that the rate of the Exchequer contribution to be paid from 1 April 2009 should be 31.6% of pensionable salaries.

1.10 Cost-sharing/capping The Senior Salaries Review Body (SSRB), in their report of January 2008, recommended that a form of cost sharing and a form of cost capping should be introduced into the PCPC. These recommendations of the SSRB were endorsed, in principle, by the House of Commons in a vote of the House on 24 January 2008. As it is possible that some form of cost-sharing or cost-capping mechanism may be introduced before the next actuarial valuation of the scheme, the contribution rate recommended to be paid by the Exchequer from 1 April 2009 is expressed as 31.6% minus the value of whatever changes in member contributions or benefits may be implemented.²⁷

The Senior Salaries Review Body (SSRB) had recommended in January 2008 that there should be a ceiling of 20% on the Exchequer contribution to the cost of accruing benefits.²⁸ On 25 June 2009, the House agreed to increase Member contribution rates and cap the Exchequer contribution at 28.7% of salary (20.2% for accruing benefits and 8.5% to fund the deficit) backdated to 1 April 2009.²⁹ It also recommended a major review of the Fund if it looked likely that the Exchequer contribution to the cost of accruing benefits for MPs in service rose above 20% of payroll.³⁰ The need for this review was effectively triggered in June 2008. The SSRB published the report of its review in July 2010 (see section 5 below). The next actuarial review of the PCPF is due with an effective date of 31 March 2011.³¹

The amount of contributions in 2009/10 and 2008/09 were as follows:³²

²⁷ [Government Actuary's Department, Parliamentary Contributory Pension Fund. Valuation as at 1 April 2008.](#) HC 345, 31 March 2009

²⁸ Review Body on Senior Salaries, [Review of Parliamentary pay, pensions and allowances 2007](#), January 2008, Cm 7270, para 3.54

²⁹ [Parliamentary Contributory Pension Fund Account 2009-2010](#), HC 660, 7 December 2010, page 6

³⁰ Review Body on Senior Salaries, [Review of Parliamentary pay, pensions and allowances 2007](#), Cm 7270, para 3.58

³¹ [Parliamentary Contributory Pension Fund Account 2008-2009](#), HC 524, 29 March 2010, page 8

³² [Parliamentary Contributory Pension Fund Account 2009-2010](#), HC 660, 7 December 2010, page 18, note 3. The Exchequer is required to contribute 8.7% of payroll over a 15 year period to repair the deficit in the PCPF.

	2009/10 £0	2008/09 £0
Members		
Normal	4,930	4,251
Added years	240	184
Additional voluntary contributions	130	160
Employers		
Normal	9,516	8,406
Deficit	4,004	4,041
	18,820	17,042

The table in Annex A shows Member and Exchequer contribution rates from 1965 onwards.

3 The origins of the current arrangements

The first pension arrangements for MPs were introduced in 1964. This was set up under the *Ministerial Salaries and Members' Pensions Act 1965*. This was intended to provide for the payment of pensions to ex-Members of Parliament who had attained 65 years of age and who had not less than ten years reckonable service and, subject to certain conditions, to the widows, widowers and children of deceased pensioner Members.³³

In December 1970 the Government announced that the recently established Review Body on Top Salaries (TSRB) would undertake subsequent reviews of the arrangements for salaries, allowances and pensions of Ministers and MPs.

The first report of the TSRB (Cmnd 4836) recommended a restructured pension scheme with pension related to "final salary", accruing at 1/60th for each year of service. The scheme was to be extended to include Ministers and certain other office holders who wished to participate. The new scheme was established under the terms of the *Parliamentary and Other Pensions Act 1972*.³⁴

The next major change resulted from the 20th Report of the TSRB (Cmnd 8881) which recommended an accrual rate of 1/50th, with effect from 20 July 1983. The contribution payable by Members was increased to 9% of salary. These changes and other minor matters were given legal force by the *Parliamentary Pensions etc. Act 1984*. The 31st Report of the TSRB, (Cm 1576), approved by Parliament on 18 July 1991, then recommended that the contribution payable by Members be reduced to 6% of salary; this took effect from 1 April 1992.

Pressure for a single consolidation document had grown throughout this period, and resulted in the *Parliamentary and Other Pensions Act 1987*. This Act meant that the detailed

³³ Ibid, page 2

³⁴ Subsequent reviews resulted in amending Acts in 1976, 1978 and 1981.

arrangements could be set out in regulations. This led to the *Parliamentary Pensions (Consolidation and Amendment) Regulations 1993* (SI 1993/3253) and the *Parliamentary Pensions (Additional Voluntary Contributions Scheme) Regulations* (SI 1993/3252), which came into force on 21 January 1994.

The AVC Scheme enables Members to purchase additional pension benefits within limits proscribed by the Fund Regulations. In 1995 the House voted to increase the accrual rate from 1/60th to 1/50th for service prior to 20 July 1983, for Members who were serving as at 1 April 1995. Other regulations affecting the scheme have been laid.³⁵

4 Developments from 2001

In May 1999, the Senior Salary Review Body (SSRB) was invited to undertake a “review of the Parliamentary Pension Scheme and assess it against current good practice.”³⁶ The review made eight recommendations on changes to the scheme. These included: changes to survivors’ benefits; treatment of service in other UK parliaments or assemblies or as an MEP; a change in the abatement rules affecting an MP in receipt of a pension and serving as an office holder in the House of Lords.³⁷ Perhaps the most significant changes to the scheme to follow on from the 2001 SSRB review, related to the accrual rate and survivors’ benefits, as discussed below.

4.1 Increase in the accrual rate

The Trustees of the PCPF told the SSRB they thought the pension accrual rate³⁸ in the Fund should increase to 1/40th, with the additional costs to be borne by the Exchequer. However, the SSRB considered the existing pension accrual rate (1/50th) to be fair:

7. The current accrual rate of 1/50th of salary per year of service dates from 1983. In 1995 this accrual rate was extended to the service of sitting Members with service dating back before 1983. The Trustees told us of their reservations about the appropriateness of the Hay job evaluation system used by the Review Body in 1996 to determine the appropriate level of remuneration for Members. In their view it attached insufficient weight to the quality of MPs work, additional unpaid duties, the volume of casework and the exceptionally long hours. The trustees were ‘of the firm opinion that the nearest comparator for pension purposes, to reflect fully the sheer range and diversity of the job of an MP, are directors and senior executives in the private sector.’ Taking account of the comparable accrual rates in industry, job insecurity and the difficulty of securing subsequent employment, they urged that the accrual rate be increased to 1/40th and the additional costs be borne by the Exchequer.

8. It remains the Review Body’s view that the right comparators for MPs are posts of equivalent weight in the public sector/professional area. Research conducted for our 22nd report on Senior Salaries indicated that benefits on retirement for private sector employees at comparator levels accrued at a rate of 1/55th. The 1999 NAPF survey shows that, except for directors and senior executives in the private sector, few schemes enjoy as good an accrual rate as the PCPF. In the public sector an accrual

³⁵ [Parliamentary Contributory Pension Fund Account 2008-2009](#), HC 524, 29 March 2010, page 2-4 summarises the legislation relating to the Fund; House of Commons Information Office, *Members’ pay, pensions and allowances* (factsheet M5), October 2008 provided an outline of its development.

³⁶ SSRB, *Review of the Parliamentary Pension Scheme*, Cm 4996, March 2001, para 1

³⁷ *Ibid*, p7

³⁸ Also referred to as benefit build up rate

rate better than 1/60th is exceptionally rare. In our view the current 1/50th rate is fair: its relative generosity helps to compensate for the unusual features of an MP's job.³⁹

In debate on the SSRB report, John Butterfill (on behalf of the Trustees) introduced an amendment to increase the accrual rate:

"And that this House further endorses the recommendation of the Trustees of the Parliamentary Contributory Pension Fund that the accrual rate be increased to 1/40th and that the additional cost be borne by the Exchequer".—[*Mr. Butterfill.*]⁴⁰

He argued that the PCPF provided inferior benefits compared with other UK public service schemes and Parliamentary pension schemes in other countries:

We are probably the meanest democracy in the western world in the way that we treat our Members of Parliament in terms of pensions. I will demonstrate that with facts and figures, but first I shall give some other public sector comparisons. Only one other public sector involves the principle of interrupted service: when the legal profession moves into the judiciary, sometimes temporarily. The judges' scheme is complicated. They used to receive a full pension after 15 or 20 years, depending on the rank of judge they were, but they are now on an accrual rate of one fortieth, which is what we are asking for.

The police have a complicated accrual rate. The rate is one sixtieth for the first 20 years and two sixtieths for each year thereafter, up to a maximum of forty sixtieths, which means that they receive, effectively, an accrual rate of one fortieth. They achieve a maximum pension of two thirds after 30 years of service. Of course, their retirement age is very much lower than ours. We retire at 65, although it is possible to retire at 60 if one is willing to take a substantially reduced pension. In the police service, however, the pension is payable from the age of 50. Normal retirement age in the police is 55, and 60 for inspectors and superintendents, except in the Metropolitan police, for whom it is 55.

Similarly, in the armed forces, to which reference has been made, the scheme grants a full pension after 34 years' service. That is similar to our scheme, but the armed forces' retirement age is 55 and they can retire after 16 years' reckonable service. Unlike our scheme, theirs is non-contributory.⁴¹

This change in the accrual rate had previously been proposed as long ago as 1980.⁴² The Government opposed the amendment, but it passed by 215 votes to 172.⁴³

Funding the increased accrual rate

There was a delay in implementing the increased accrual rate because of concerns about how it would be financed. On 7 May 2002, Robin Cook, the then Leader of the House, announced that the question of how the increase in the accrual rate should be funded had been referred to the Senior Salaries Review Body.⁴⁴ On 15 July 2002, Mr Cook announced the SSRB's recommendations in a written answer:

³⁹ *Review Body on Senior Salaries, Report No. 47, Review of the Parliamentary Pension Scheme*, Cm 4996, March 2001

⁴⁰ [HC Deb, 5 July 2001, 471-2](#)

⁴¹ HC Deb 5 July 2001, c452

⁴² HC Deb 5 July 2001, c452. Although MPs agreed to it, it was never implemented.

⁴³ [HC Deb, 5 July 2001, 471-2](#)

⁴⁴ HC Deb 7 May 2002, c74W

Mr. Robin Cook: In July of last year the House voted to increase the accrual rate of the parliamentary pension from one-fiftieth to one-fortieth. The Government did not accept the proposal in the resolution that all the cost should fall on the Exchequer. I therefore announced on 7 May that I had referred the cost of this improvement to the SSRB.

The SSRB has now reported. In brief, they recommend that the cost of the faster accrual rate, which is estimated at 5.1 per cent. of pay, should in the short-term be split with Members contributing 3 per cent. and the Exchequer contributing 2.1 per cent. The SSRB further recommends that this additional Exchequer contribution should be taken into account in subsequent reviews of MPs pay so that eventually the full cost of the accrual rate is borne by MPs.

The Government accept these recommendations of the SSRB. I am therefore today laying an Order giving effect to the new accrual rate and also to other recommendations of the SSRB which the House approved last July...

The new contribution rate for Members will be 9 per cent. of pay. The statutory instrument provides that contracting into the new accrual rate will be optional for existing members of the scheme.

I hope this sensible compromise will be welcome. I believe it fairly recognises the decline in the average length of service of MPs, which has had the effect that only a handful of Members now achieve the maximum pension entitlement.⁴⁵

The SSRB recommendations were formally set out in a letter to Mr Cook dated 18 June 2002. It concluded that the increase in contributions needed to fund the improved accrual rate should primarily be met by Members:

In its earlier review of the parliamentary pension scheme, the Review Body considered whether, in the context of the total remuneration package of MPs, an accrual rate of 1/50th still seemed appropriate when considered alongside the rates available in other schemes, particularly those covering MPs' comparator jobs. The Review Body concluded that it did, and that remains its view in the light of the evidence summarised above.

Noting that none of the evidence it received argued for the benefit of a 1/40th accrual rate to be applied to past service, and given the cost, the Review Body concluded that if a new accrual rate of 1/40th is to be conceded, this should be applied to future service only.

As regards who should pay the increased contribution of 5.1 % of pensionable pay needed to fund the improved accrual rate of 1/40th for future service, the Review Body concludes that MPs should be the primary contributors and that Members' contributions should increase immediately by 3% to a new total of 9% of pensionable pay. (This figure may need to be revised in light of a more accurate estimate by GAD of the cost involved.) This will leave 2.1 % to be funded initially by the taxpayer, but the Review Body considers that this additional contribution should be taken into account in subsequent reviews of MPs pay, particularly taking into account their wish to give greater weight to pension benefits within total remuneration, so that eventually the full cost of implementing the increased accrual rate is borne by MPs on an ongoing basis.⁴⁶

⁴⁵ HC Deb 15 Jul 2002 c83-4W

⁴⁶ Letter from John Baker, OBE, chairman of SSRB to Robin Cook, dated 18 June 2002

The Parliamentary Pensions (Amendment) Regulations 2002 (SI 2002/1807) were laid on 15 July 2002. As there were drafting errors in these regulations the *Parliamentary Pensions (Amendment) (No.2) Regulations 2002* (SI 2002/1887) were laid on 22 July 2002. Both sets of regulations came into force on 5 August 2002. The regulations provided for an increase in contributions and an increase in the accrual rate, for members and office-holders:

- **Regulation 2** introduced a new contribution rate from 15 July 2002; however serving members could opt to continue to pay 6%. Alternatively members could elect to increase their contributions from 5 July 2001, by making a backdated contribution.
- **Regulation 3** changed the basis on which pensions are calculated. All those who chose to pay the higher rate of 9% have their pension calculated on 1/40th per year of service, from the date at which they began to pay a higher rate of contribution. The pension for earlier service is calculated on 1/50th per year of service. MPs who continue to pay 6% also have their pension calculated on 1/50th per year of service.⁴⁷
- The regulations were considered by the Standing Committee on Delegated Legislation on 23 July 2002 and passed by 14 votes to 1. The Member who voted against the regulations was Liberal Democrat MP (and now Pensions Minister), Steve Webb. He said:

My reason for not supporting the regulations this morning is my concern about their impact on the taxpayer and the way in which we are seen. I am aware that it is not a party issue, that some members of my party do not agree with my views and that members of other parties do. I am speaking in a purely personal capacity this morning.⁴⁸

Reaction to the increase in the accrual rate was mixed. The SSRB in its recommendations did not give full support to the increase, and made it clear that it was only recommending how to implement it, not recommending that the increase be made. Steve Webb, the then Liberal Democrat pensions spokesperson, opposed the increase in the accrual rate. He argued that “our constituents will be seeing the stock market fall affecting private pensions. It seems particularly crass to be asking them to subsidise ours”.⁴⁹ The then-Leader of the Conservative Party, Iain Duncan-Smith, was reported as saying that he would not opt for the increase in accrual rate on the grounds that it “sent the ‘wrong signal’ to voters, whose pensions were suffering in the light of the collapse of the stock market.”⁵⁰ The then Chancellor of the Exchequer Gordon Brown told the Treasury Select Committee, “I would not be happy if excessive amounts of public funds were put into the pension settlement”.⁵¹ The trade union, UNISON, was reported to have criticised MPs for enhancing their pension, while failing to halt the closure of final salary pension schemes.⁵²

In 2003 the Government Actuary calculated the net cost of the pension accrual rate improvement as 4.6% of pay, lower than the initial estimate of 5.1%. This was because not all Members opted for the higher accrual rate.⁵³

⁴⁷ The regulations also provided for an increase in death benefits and equal treatment of dependant children where a member died on or after 1 April 2001

⁴⁸ Third Standing Committee on Delegated Legislation, *Parliamentary Pensions (Amendment) Regulations 2002*, Tuesday 23 July 2002, c3

⁴⁹ As quoted in “Tory leader backs Brown on pensions”, *The Guardian*, 19 July 2002

⁵⁰ As quoted in “Tory leader backs Brown on pensions”, *The Guardian*, 19 July 2002

⁵¹ As quoted in “Brown and Duncan Smith condemn new deal for MPs Pensions” Daily Telegraph 19 July 2002

⁵² “MPs vote to improve their pension schemes” Financial Times 24 July 2002

⁵³ *Parliamentary Contribution Pension Fund Valuation Report*, HC 445 2002/03, March 2003

The 2004 SSRB Review recommended that the contribution rate for those MPs who had opted for the 1/40th accrual rate should be increased by 1 per cent to 10%, with effect from 1 April 2004. The report goes on to put the 10% figure in context with private and other public service schemes, stating that:

An employee contribution of ten per cent is high by comparison with the private sector, where employee contributions into defined benefit pensions plans by comparator groups are typically around five per cent. It is also high by comparison with many schemes in the public sector, but it is not unique. For example, contribution rates are 11 per cent in the case of the police and fire service, which also have relatively advantageous accrual rates compared to other schemes.⁵⁴

The change was agreed to on 3 November 2004. In the debate on the report on the same day, the Leader of the House of Commons summarised the Government's attitude to the contributions increase as follows:

The second motion before the House is to implement the SSRB recommendation that the contribution rate for those scheme members who have opted for their pension to build up at a rate of one fortieth of final salary for each year of service should increase from 9 per cent. to 10 per cent. It may be recalled that in 2002, the SSRB recommended that, in the first instance, the contribution rate of members who opted for the one-fortieth accrual rate should increase to 9 per cent. It recommended that the remaining cost of the benefit improvement should be taken into account in subsequent reviews of pay and allowances. That would mean that eventually the full cost of implementation would be borne by Members on an ongoing basis. The Government accepted that recommendation.

The SSRB has now considered the options for recovering the remaining cost. It has concluded that it would be unfair to restrict future pay increases for all Members irrespective of whether they had opted for the one-fortieth accrual rate. It has instead recommended that the contribution rate for those who opted for the improved accrual rate should increase by 1 per cent. from 1 April 2004. It considers that an appropriate step towards recovering the full cost. The SSRB remains of the view that the full cost of the benefit improvement should in due course be borne by Members on an ongoing basis. It intends to take outstanding the amount into account in its next review of parliamentary pay and allowances.

The Government are content with the SSRB's recommendation to phase the recovery of the additional cost and believe that it should be implemented. If the House agrees, I understand that the Trustees would propose that the collection of arrears back to 1 April this year should be spread over the balance of the current tax year, so that Members are not saddled with a huge bill. The Government are happy with that approach.⁵⁵

In 2007, the SSRB considered whether a further increase in the contribution rate by Members was required to pay for the 1/40th accrual rate. Watson Wyatt (actuarial consultants) was commissioned to report on pensions for the SSRB. It found that there was no further cost to take into account:

⁵⁴ Review Body on Senior Salaries, *Review of Parliamentary Pay and Allowances*, Cm 6354, October 2004, p14

⁵⁵ HC Deb 3 November 2004, cc330-331

The increase in members' contribution from 9% to 10% of pay in 2004 (in addition to the increase from 6% to 9% at the time of its introduction) can be considered to have borne the increase in cost in full.⁵⁶

The SSRB therefore recommended that no increase in MPs' pension contributions was needed simply to pay for the 1/40th accrual rate.

4.2 Survivors' benefits

The SSRB's 2001 report made a number of recommendations on the subject of survivors' benefits:

Recommendation one: We recommend that the lump sum death in service payment be increased from three times annual basic salary to four times annual basic salary and that the increased cost of around 0.4 per cent be borne by the Exchequer. (Paragraph 10)

Recommendation two: We recommend that the rules should be amended to remove the provision for curtailing the pension of a widow/widower of a deceased Member on remarriage or cohabitation. Any consequential increase in the contribution rate should be borne by the Exchequer. (Paragraph 15)

Recommendation five: We recommend that the rules of the scheme should be revised in respect of benefits for children to ensure that all dependent children receive equality of treatment. (Paragraph 21)

Recommendation eight: We recommend that the Trustees should canvas the views of Members of the PCPF on the issue of survivor pensions for unmarried partners. (Paragraph 34).⁵⁷

Recommendations one and five were implemented by the *Parliamentary Pensions (Amendment) Regulations 2002* (SI 2002/1807) and the *Parliamentary Pensions (Amendment) (No 2) Regulations 2002* (SI 2002/1887), with effect from 1 April 2001.

The extension of survivor's benefits to unmarried partners was the subject of an amendment by Dr Evan Harris when the SSRB report was debated by Parliament in July 2001:

"And that this House believes that survivors' benefits could apply to unmarried partners as well as spouses"—[Dr. Harris.]⁵⁸

This amendment was passed by 289 votes to 33.

In his written answer of 15 July 2002 the then Leader of the House Robin Cook said the Government's policy was that the cost of improvements to survivor's benefits should not fall on the taxpayer:

There are two remaining issues, whether survivor pensions should be extended to unmarried adult dependants and whether survivor pensions should continue if a spouse remarries. It is the Government's policy that neither the cost of extending pensions to surviving adult dependants, nor that of the SSRB recommendation to pay pensions to surviving spouses for life, should fall on the taxpayer. Following the vote

⁵⁶ Watson Wyatt report in Review Body on Senior Salaries, *Review of Parliamentary pay, pensions and allowances 2007*, Cm 7270-2, para 2.30

⁵⁷ *Review Body on Senior Salaries, Review of the Parliamentary Pension Scheme*, Cm 4996, March 2001, p7-8

⁵⁸ HC Deb 5 July 2001, c474

last year, the trustees of the pension scheme were asked to consider how these proposals could best be implemented at no cost to the Exchequer. The trustees only reported on 5 July. There has not therefore been sufficient notice for the Government to reach a view on these proposals and whether they do protect the taxpayer against any additional cost. I expect to bring forward proposals to the House in the autumn. Changes will be backdated to today's date.⁵⁹

In 2004, the SSRB report recommended that the Trustees should decide what action to take on three recommendations outstanding from the SSRB's March 2001 report, including:

That the provision for curtailing widows' and widowers' pensions upon their remarriage should be removed, at Exchequer cost...

That the Trustees should canvas the views of the members of the PCPF on the issue of survivor pensions for unmarried partners.

It considered that an increase in the retirement age (see below) could enable the proposed improvements to survivors' benefits to be made.⁶⁰

On 3 November 2004, the House resolved (without division) that these changes should be implemented as part of a package that was cost-neutral to the Exchequer:

That this House notes recommendation 3 contained in the report of the Review Body on Senior Salaries on parliamentary pay and allowances (Cm. 6354-1), a copy of which was laid before this House on 21st October, and is of the opinion that, subject to consultation with the Trustees of the PCPF and the Government Actuary as to the detailed implementation, the proposals set out in paragraphs (1) to (3) below should be adopted as a package which is, overall, at least cost neutral to the Exchequer:

(1) Pensions calculated on the same basis as pensions for widows and widowers should be introduced for surviving unmarried partners of members in service on or after 3rd November 2004.

(2) Pensions for the widows, widowers and unmarried partners of members in service on or after 3rd November 2004 should be payable for life.⁶¹

The *Parliamentary Pension (Amendment) Regulations 2005* introduced provisions for surviving partners who were neither married nor a civil partner and made pensions to adult survivors payable for life (although the amount payable can be reduced where the adult survivor is more than 12 years younger than the participant).⁶²

4.3 Retirement age

In 2004, the SSRB considered the implications for the scheme of the Government's proposal that the retirement age in public service schemes should increase to 65.⁶³ Members of the PCPF with at least 20 years service could draw an unreduced pension from age 60. The SSRB said that removing this provision for new entrants (and possibly for the future service

⁵⁹ HC Deb 15 July 2002 c83-4W

⁶⁰ *Review Body on Senior Salaries, Review of Parliamentary Pay and Allowances 2004*, Cm 6354-1, October 2004, para 3.22

⁶¹ [House of Commons, Votes and proceedings: 3 November 2004](#) ; [HC Deb, 3 November 2004, c368-9](#)

⁶² *Parliamentary Pension (Amendment) Regulations 2005* (SI 2005. No. 887)

⁶³ DWP, [Simplicity, security and choice: Working and saving for retirement](#), December 2002, Cm 5677; , Chapter 6, para 65-69; This issue is covered in more detail in Library Standard Note, SN/BT 2209, Public Service Pension Age

of existing members) could enable improvements in the scheme relating to survivor's benefits:

3.21 However one aspect of the reforms (not part of the Bill) which could have a significant impact on the PCPF is the change in Government policy on retirement age in relation to public service occupational pension schemes. The new policy is to implement a retirement age of 65 (rather than 60) for public servants who take up employment from a date yet to be fixed, probably no later than 2006. The Government also intends that the retirement age for the future service of existing members of pension schemes should be increased to 65 from a date yet to be agreed (e.g. it could relate to service after 2010).

3.22 As noted in paragraph 3.5 above, MPs with at least 15 years of service may currently draw their pension on retirement from age 60 without any reduction for its early payment, if age and service total more than 80 years. Pensions that are reduced for early payment – but on favourable terms to the extent that length of service exceeds 15 years – may also be paid to any member from age 50. It would be possible to alter the PCPF provisions in line with the proposed policy for public service workers, by removing the favourable early retirement terms for future new entrants (from, say, the date of the next election). Such a change might also be applied to the future service of existing PCPF members. If introduced as part of a package of changes, it may be possible to make improvements to the scheme (e.g. in respect of unmarried partners' pensions, and by removing the cessation on remarriage provisions) without increasing members' contribution rates.

3.23 The Government's evidence to us indicated that it expected the new retirement age of 65 to be applied to the PCPF. Assuming that this is confirmed in due course, the current provisions which allow unreduced pensions to be payable before age 65, subject to completion of a minimum length of service, would no longer be available. Such a change would lead to some reduction in the costs of the pension scheme, which are estimated by GAD at 1.5 per cent of pay on an ongoing basis, when spread across the membership as a whole. As noted above, this saving could offset the additional cost of providing other benefits.⁶⁴

On 3 November 2004, the House resolved (without division) that:

The early retirement provisions which permit a member who has accrued at least 15 years service to retire before the age of 65 on favourable terms should be removed for those who become members of the scheme after 3rd November 2004 and phased out for existing members from 1st April 2009, or the day after the general election after next, whichever is the later.⁶⁵

4.4 Taxation

The *Finance Act 2004* introduced a simplified taxation regime for pension schemes. The 2004 SSRB review gave its view on the implications for the PCPF and then put forward the following issues for consideration:

3.33 GAD concludes its report by advising that specific changes to the PCPF's detailed benefit provisions that could be considered in conjunction with the introduction of the new Inland Revenue regime include the following:

- Allowing a greater proportion of the PCPF pension to be commuted to a tax-free lump sum at retirement, possibly up to the level permitted under the new Inland

⁶⁴ Cm 6354-I, p15

⁶⁵ [House of Commons, Votes and proceedings: 3 November 2004](#) ; [HC Deb, 3 November 2004, c368-9](#)

Revenue regime. This change may be particularly attractive, as the cash commutation facility is generally popular with members, and there should be no additional cost to the scheme.

- Abolishing the limit of 2/3rds final salary on pension benefits payable from the PCPF. This would increase the cost of providing pensions for those members who are already restricted by the current limit, as well as those who would have been restricted by it in future.
- Removing the “earnings cap” restriction on the salary level that may be pensioned in the PCPF. This restriction only applies to members who joined after 1989 and whose total parliamentary salary (including office holder salary) exceeds the earnings cap – £102,000 p.a. for 2004-05. For members currently affected, removing this restriction would represent a windfall gain in terms of the value of the accrued pension benefits, if the relaxation were to be given in respect of pension rights already accrued, as well as those that will accrue after the change. Removing this restriction would increase the cost of providing pensions for those members who are restricted by the current limit, as well as those who would have been restricted by it in future.
- Removing the restrictions that relate to Retained Benefits (pension rights earned prior to joining PCPF). This limitation restricts those with a substantial level of other pension provision to a PCPF pension accrual rate of only 1/60th of final salary per year of service. Its removal would increase the cost of providing pensions for the relatively small number of members who are likely to be affected by it.

3.34 A further issue for consideration is that referred to in paragraph 3.31, namely whether the PCPF contribution limits should indeed be relaxed in line with the new Inland Revenue regime.

3.35 In due course it will be important to consider whether or not any changes should be made to the structure of the PCPF. In the first instance it will be for the Government to clarify its policy intention in respect of the retirement age for members of the Fund, and its early retirement provisions. It will then be for the Government in conjunction with the Trustees to consider:

- Changes consequent upon the new tax regime;
- Changes to survivor benefits under the scheme to cover civil partners; and
- The mechanism for meeting the cost (or taking account of the savings) of such changes.

Depending on what is ultimately decided, we may need to consider the implications for MPs’ remuneration in our next report.⁶⁶

Regulations implementing changes consequent upon the pension tax simplification changes were introduced from 6 April 2006.⁶⁷ The main parts of the package were:

- Measures to ensure compliance with the *Finance Act 2004*, including: restricting dependents’ pensions in certain circumstances where the member was over 75 when they died (regulation 7); amending the PCPF scheme’s definition of “incapacity” for the

⁶⁶ Cm 6354, pp17-18

⁶⁷ *Parliamentary Pensions (Amendment) Regulations 2006*, SI 2006.No 920

purpose of ill-health pensions (regulation 10); and enabling the PCPF scheme to pay certain tax charges (regulations 14 and 25).

- Changes to the PCPF scheme's added years arrangements. These ensure the arrangement provides a worthwhile facility to those who may only serve for a relatively short period of time and may not have built up significant pension rights elsewhere, whilst reducing the scope for abuse which would exist if those purchases which are currently unlimited were allowed to continue. (regulation 3)
- Allowing members of both the PCPF scheme and its AVC scheme to take the maximum tax-free lump sum permitted under the new tax regime. (regulations 5 and 23)
- Accounting for the fact that under the *Finance Act 2004* it will not be possible after 5 April 2006 for members over 75 to take a tax-free lump sum with their pension, to get tax relief on their pension contributions or have a tax-free lump sum paid on their death. The regulations give PCPF members who are already over 75 the choice of either continuing in the Fund but with no lump sum payable, or being awarded their pension immediately before 6 April 2006 (hence being allowed to take their tax-free lump sum immediately), but having their pension fully abated until they retire. This provision will be extended to members that reach 75 after 5 April 2006, once the provisions enabling abatement of pension in the draft Finance Bill come into force.⁶⁸ The regulations also provide an alternative to the existing death in service benefit for members over 75, and extend their five year pension guarantee by up to a further five years, so that it does not commence until they actually retire. (regulations 5, 6, 8 and 9)
- Imposing a time limit of 12 months for transferring pension rights into the PCPF scheme from personal pension and voluntary contribution schemes. Without a limit, someone seeking to avoid the ceiling on added years' purchases could purchase a single premium pension and then transfer that to the PCPF scheme, thus circumventing the contribution limits. The restriction on transfers-in would not apply to existing members until 6 April 2007, so that they had a reasonable period of notice. (regulation 15 and Schedule 1)
- Facilitating PCPF scheme members to benefit from "enhanced protection", if they apply for it. Enhanced protection is a transitional protection measure offered by the new tax rules so that members can protect pensions already built up before 6 April 2006. (regulation 18)
- Removing the current limits on contributions to, and benefits from, the AVC scheme. (regulation 23)

4.5 Retained benefits restriction

Before 6 April 2006, tax legislation required that benefits built up in other pension schemes (retained benefits) had to be taken into account in calculating the maximum benefits payable under all pension schemes approved by HMRC. In its 2007 report, the Senior Salaries Review Body (SSRB) explained:

The legislation was changed with effect from 2006 so that schemes are no longer required to take retained benefits into account although they are not prevented from doing so. The PCPF rules have not been changed, so retained benefits are still taken

⁶⁸ Regulations to implement this came into force in March 2007. *The Parliamentary Pensions (Amendment) Regulations 2007* (SI 2007, No. 270)

into account in calculating the normal maximum pension of two-thirds of final salary, and the pension of an MP with retained benefits may be reduced accordingly, although not below a pension based on an accrual rate of 1/60th final salary. This means that some MPs with retained benefits who are currently contributing for an accrual rate of 1/40th or 1/50th of final salary will receive a pension based on 1/60th accrual rate only. We understand that a number of MPs have opted for the 1/40th accrual rate in the expectation that the retained benefits restriction would be dropped following the change in legislation.⁶⁹

The SSRB concluded that they were “satisfied” that the balance of arguments was clearly in favour of removing the retained benefits restriction. As the Government had said in their evidence, the pay and pensions available to Members “can amount to less for those MPs who have been prudent and accumulated pension saving when they were younger, or those who have given up well-paid jobs for public service”. Members who are caught up by the retained benefits restriction were basically subsidising the Fund.

However, making this change would have a cost. The Government suggested that the cost should be met by increased members’ contributions, or reductions in other Fund benefits, or both. The SSRB stated that “this would mean that members with retained benefits were now subsidised by those without.”⁷⁰ This difficulty – which group of members should effectively subsidise the other group – prompted the actuarial consultants Watson Wyatt to conclude that “if the retained benefit restriction [were] to be removed, further inequity among members could be avoided only if the Exchequer met the additional cost.”⁷¹ However, the Exchequer has already stated that it is unwilling to meet such a cost.

The SSRB therefore proposed what they considered to be “the least bad” option” – that there should be an option to accrue (or build up) pension at 1/60th in return for reduced contributions:

...namely, one suggested by Watson Wyatt whereby, with the retained benefits restriction retained, MPs should be offered an additional option to accrue pension at 1/60th in return for reduced contributions, for example 3 per cent of pay, enabling MPs with retained benefits to pay contributions more reflective of the value of the scheme to them. This option would also have a small cost (because it would reduce the savings to the scheme, and hence to the Exchequer, which currently arise from the retained benefit restriction) though Watson Wyatt expect this cost to be lower (perhaps 1 to 2 per cent of pensionable pay) than that of removing the retained benefit restriction (3.5 to 5 per cent). Again, there is no way of apportioning the cost of the 1/60th option equitably between members, so we recommend that if this option is adopted, the residual costs should be borne by the Exchequer.⁷²

On 16 January 2008, the then Leader of the House, Harriet Harman, said the Government accepted this in principle:

In respect of pensions, the SSRB has proposed the introduction of an optional 1/60th accrual rate. The Government accepts this proposal in principle and is prepared to introduce it when the change can be made as part of a cost neutral package.⁷³

⁶⁹ Review Body on Senior Salaries, *Review of Parliamentary pay, pensions and allowances 2007*, Cm 7270, para 3.44

⁷⁰ Ibid, para 3.45

⁷¹ Ibid, para 3.49

⁷² Ibid, para 3.50

⁷³ HC Deb, 16 January 2008, c34WS

A motion on the Order Paper in the name of the Leader of the House for debate on 17 December 2008 endorsed:

... a cost-neutral package of changes to the Parliamentary pension scheme which implements proposals agreed to by the House on 24th January 2008. The package consists of:

- (a) the introduction of a 1/60th accrual rate in return for a reduced member contribution rate of 5.5% of salary; and
- (b) changes to the ill-health retirement provisions, as proposed by the Trustees.⁷⁴

An Explanatory Memorandum provided further details:

Introduction of a 1/60th accrual rate in return for a reduced member contribution

5. The current scheme regulations give members the choice of paying a contribution of 6% of salary to build up benefits at an accrual rate of 1/50th of final salary for each year of service, or a contribution of 10% of salary to build up benefits at an accrual rate of 1/4th. The regulations limit the maximum pension that can be built up, and require any "retained benefits" that the member might have (pension benefits built up in pension schemes other than the Parliamentary scheme and its AVC arrangements) to be taken into account. Some members are paying contributions of 10% of salary but are restricted by the current scheme regulations to an accrual rate of 1/60th because they have retained benefits.

6. Sub-paragraph (1) of this motion proposes that, in addition to the existing accrual rate options, there should be a further option of a 1/60th accrual rate in return for a member contribution rate of 5.5% of salary. Existing members would have a one-off option to switch accrual rates (to 1/40th, 1/50th or 1/60th). This option would be backdated to 1 April 2008 or the date of the individual becoming a member [of] the scheme, if later. Existing members would be given three months from the date that the amending regulations are made to exercise this option.

7. The member contribution rate of 5.5% of salary was proposed by the Trustees and the Government is content with this proposal.⁷⁵

The proposed changes were debated and agreed to.⁷⁶ They were introduced by means of the [Parliamentary Pensions \(Amendment\) Regulations 2009 \(SI 2009/1920\)](#)

5 Review of PCPF

5.1 2007 Senior Salaries Review Body report

The Labour Government had asked the Senior Salaries Review Body (SSRB) to address the question of how to fund the scheme, in a way that was fair to both the Exchequer and members, so as to ensure that it remains affordable.⁷⁷ The SSRB explained that:

The current position is that, following the 2005 valuation of the scheme, the Exchequer contributes 18.1 per cent of payroll for the accrual of benefits while

⁷⁴ Explanatory Memorandum on the Motion Standing on the Order Paper in the Name of the Leader of the House: Parliamentary Pensions

⁷⁵ Explanatory Memorandum on the Motion Standing on the Order Paper in the name of the Leader of the House: Parliamentary Pensions

⁷⁶ [HC Deb, 17 December 2008, c1162-70](#)

⁷⁷ Review Body on Senior Salaries, [Review of Parliamentary pay, pensions and allowances 2007](#), Cm 7270, p22

members collectively contribute 9.3 per cent. (Most members contribute 10 per cent for 1/40th accrual but some contribute 6 per cent for a 1/50th rate.) In addition to the underlying contribution rate of 18.1 per cent, the Exchequer is also currently contributing an additional amount of 8.7 per cent of payroll required over 15 years to amortise the accumulated deficit that has arisen because at times the Exchequer contribution has been below the cost of accrual of benefits, as was the case between 1989 and 2003 while the scheme was in surplus...⁷⁸

It recommended that any increase or decrease in the cost of benefit build up (accrual) should be shared equally between Exchequer and members:

Recommendation 7: We recommend that any increase or decrease in the cost of accrual for MPs in service in the Parliamentary Contributory Pension Fund should be shared equally between the Exchequer and members. We consider the following to be some of the elements excluded from the cost of accrual:

- payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund;
- changes to allow members with retained benefits to opt for a 1/60th accrual rate (i.e. the consequence of Recommendation 6); and
- changes to the assumptions about the investment return on assets.

It recommended that there should be a ceiling of 20 per cent on the Exchequer contribution to the cost of benefit accrual:

3.55 We have also considered the Government's request for a "recommended maximum level above which the Exchequer contribution should not rise in the future." On the one hand we recognise that ceilings on the employer's contribution have been introduced as part of the revision of several public sector schemes. For example, the intention is to limit the employer's contribution to the civil service pension scheme to no more than 20 per cent of pay, while the ceiling on employer contributions for the teachers and NHS schemes is 14 per cent. On the other hand, those are all 'pay as you go' rather than funded schemes. However, we think the public would find it hard to understand why the taxpayer should have an unlimited liability to contribute to the PCPF when members of so many pension schemes in both the private and public sector are facing increased contributions, reduced benefits or both to take account of increasing longevity and, in the case of some funded schemes, reduced investment returns. We therefore recommend that there should be a ceiling of 20 per cent on the underlying Exchequer contribution (i.e. excluding the 8.7 per cent to amortise the current deficit).⁷⁹

If it became likely that the cost to the Exchequer of the build up of benefits for MPs in service rose to above 20 per cent of payroll, there should be a major review of the Fund:

...if it becomes likely that, unless action is taken, the Exchequer contribution to the cost of accrual benefits for MPs in service in the Parliamentary Contributory Pension Fund (excluding payments to amortise the accumulated deficit identified in the 2005

⁷⁸ Ibid, para 3.52

⁷⁹ Ibid., para 3.55

valuation of the Fund) would rise above 20 per cent of payroll, then there should be a major review of the Fund.⁸⁰

In a Written Ministerial Statement published alongside the SSRB report on 16 January 2008, the then Leader of the House, Harriet Harman, said the proposed changes were consistent with the outcomes sought elsewhere in the public sector:

SSRB makes a number of recommendations aimed at limiting the cost to the taxpayer of Parliamentary pensions. These include the 50:50 sharing between members and the Exchequer of future increases or decreases in pension cost pressures, and restricting the underlying Exchequer contribution to the scheme (other than in respect of the deficit identified at last valuation) to a maximum of 20% of payroll. The SSRB also recommends that there should be a review of parliamentary pension provision if the costs are rising significantly such that the 20% cap on the Exchequer contribution is likely to be breached. These recommendations are consistent with the approach being taken in public service pension schemes generally and the Government accepts them. The Government proposes that the detail of the arrangements should be worked up in consultation with the Trustees of the parliamentary pension scheme so that it can be taken into account by the Government Actuary in his 2008 valuation of the scheme.⁸¹

Debate in the House of Commons - 24 January 2008

A motion on Parliamentary Pensions on 24 January 2008, in the name of the Leader of the House:

That this House endorses in principle Recommendations 7, 8 and 9 of the report of the Review Body on Senior Salaries on parliamentary pay, pensions and allowances (Cm 7270-I) a copy of which was laid before this House on 16th January, relating to the Parliamentary Pension Scheme, and endorses the change to the Scheme rules outlined in Recommendation 6 if it can be implemented in conjunction with changes identified by the Trustees which produce sufficient savings to be cost neutral.

One amendment was tabled to the motion by Peter Bottomley:

Line 1, leave out from 'House' to end and add 'believes Members of this House should have pension entitlements based on average, rather than final, salary.'

The SSRB recommendations referred to in the Leader of the House' motion included:

Recommendation seven: We recommend that any increase or decrease in the cost of accrual for MPs in service in the PCPF should be shared equally between the Exchequer and members. We consider the following to be some of the elements excluded from the cost of accrual:

- payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund;
- changes to allow members with retained benefits to opt for a 1/60th accrual rate (i.e. the consequence of Recommendation 6); and
- changes to the assumptions about the investment return on assets.

⁸⁰ Review Body on Senior Salaries, *Review of Parliamentary pay, pensions and allowances 2007*, Cm 7270, p28; See also Watson Wyatt report in Review Body on Senior Salaries, *Review of Parliamentary pay, pensions and allowances 2007*, Cm 7270-2, para 5.24

⁸¹ HC Deb 16 January 2008 c34WS

Recommendation eight: We recommend that the Exchequer contribution to the cost of accrual of benefits for MPs in service in the PCPF (excluding payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund) should in principle be limited to 20 per cent of the payroll of scheme members.

Recommendation nine: We recommend that if it becomes likely that, unless action is taken, the Exchequer contribution to the cost of accrual of benefits for MPs in service in the PCPF (excluding payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund) would rise above 20 per cent of payroll, then there should be a major review of the Fund.

The Leader of the House introduced the motion. She said:

... The SSRB makes a number of recommendations on parliamentary pensions. They include a 50:50 sharing between Members and the Exchequer of future increases or decreases in pension cost pressures, and restricting the underlying Exchequer contribution to the scheme to a maximum of 20 per cent. of payroll. The SSRB also recommends that there be a review of parliamentary pension provision if the costs rise significantly, such that the 20 per cent. cap on the Exchequer contribution is likely to be breached.

The recommendations are consistent with the approach being taken in public sector pension schemes generally. The Government propose that the detail of the arrangements be worked up in consultation with the trustees of the parliamentary pension scheme, chaired by the hon. Member for Bournemouth, West (Sir John Butterfill), to whom we all owe a debt of gratitude. Charing the parliamentary pension scheme on behalf of all hon. Members and the House is unsung but important work. Once the detail has been worked up, any changes on pensions will have to be brought back to the House for decision.⁸²

The then Shadow Leader of the House, Theresa May, said:

...I will support the proposals on pension arrangements. The SSRB has come forward with an attempt at a solution on the issue of retained benefits, which offers a way out for colleagues whose contribution rate exceeds what is necessary to achieve the pension available given their retained benefits. It is important that that is looked at, albeit that the Government motion asks for that to be done in a cost-neutral way. I think that there is merit in the proposals put forward by the Conservative party's democracy taskforce, chaired by my right hon and learned Friend the Member for Rushcliffe (Mr. Clarke), to consider different pension arrangements in future, after the next election. We need to be very wary and aware of the circumstances in which many people in the private sector find themselves in terms of their pension arrangements.⁸³

The then Liberal Democrat Shadow Leader of the House, Simon Hughes, noted that he supported the Government's recommendation on pensions.⁸⁴

John Spellar, however, issued a note of concern about references made to other public sector pension schemes:

... I am concerned, however, about reference to so-called gold-plated schemes compared with other public sector schemes. We as MPs have a high contribution rate, much less security of tenure and later retirement. We do not have the early retirement

⁸² HC Deb 24 January 2008 c1655

⁸³ Ibid, cc1666-1667

⁸⁴ Ibid, c1677

enjoyed by many of the uniformed services – I hasten to add that those schemes are provided for understandable operational reasons. At the same time, however, we abrogated the option of retirement at 60 on the grounds that that example would be followed by those in the wider public sector. Unfortunately, they have not found that example particularly inspirational.⁸⁵

The most expansive contribution on the subject of pensions came from the then Chair of the Trustees, Sir John Butterfill. He expressed a concern that the costs of the PCPF, as assessed by Watson Wyatt, “contain a number of fundamental and serious factual errors by Watson Wyatt”.⁸⁶ Sir John went on to describe some of the features of the PCPF:

It is important to get it on the record that the parliamentary contributory pension fund – PCPF – is rather a good scheme. It is similar to a number of others in the public sector, but despite what frequently appears in the press, the cash benefits that are provided under the PCPF are not a king’s ransom. The average pension in payment to former Members in the last Government Actuary Department’s valuation in 2005, excluding what was being paid to widows, was £15,700 per annum, yet if one looks at what is published in the papers, they give the impression that MPs have to do only one or two terms here to be on £25,000 a year. The average pension in payment is £15,700 for Members who have done many more years than that.⁸⁷

Sir John went on to explain that:

...The average member comes in at the age of 42 and leave at the age of about 52. Very few members will ever get to the full final salary, and that will not change much because of boundary changes and Members losing their seats. The media think that we backdated the fortieths, but we did not. I would still have to work in the House for 31.5 years to get a full pension. Only those Members who have come into the House most recently since we moved to the fortieths arrangement will not have to work more than 27 years.⁸⁸

Sir John stated that the 26.8 per cent “headline figure” for exchequer contributions was misleading because:⁸⁹

...it includes 8.7 per cent., which is the sum per annum that is allowed to make up the estimated deficit of £49.5 million, which has arisen entirely from the contribution holidays. That is not helped by the abolition of the tax relief, which the Government implemented early in their life. Our scheme has been affected by that just as much as anybody else’s.

That leaves an actual Exchequer contribution for future service of about 18.1 per cent., which is broadly similar to private sector schemes and other public sector schemes, which can quite often be more. For example, the civil service scheme is costing about 19 per cent. So we are not out of line with either the private sector or the public sector.

Ours is an unusual scheme in a number of respects. First, ours is virtually the only public sector scheme that is funded by Members’ contributions, investment returns – because ours is fully invested – and an Exchequer contributions. So it is unique in that. The other area in which it is unique is that it is not a final salary scheme. It is a scheme based on the salary of the lowest Back Bencher at the time of retirement. It is true that

⁸⁵ Ibid, c1681

⁸⁶ Ibid, c1690

⁸⁷ Ibid, c1711

⁸⁸ Ibid.

⁸⁹ Ibid.

Ministers or office holders have an additional amount of income and they pay 10 per cent. of that addition into a special account, which then effectively buys them additional years – that is the way it tends to operate – but that applies only for the period – often limited, when hon. Members are Ministers or office holders. They can be very brief careers in some cases....⁹⁰

On recommendation eight of the SSRB report, Sir John stated that he agreed that the Government contribution to funding the accrual of future service benefits should be limited to twenty per cent of payroll. He did, however, raise a concern about the proposal that if the rate went above that, there should either be a full review or any increase in costs should be shared equally between Members and the Government. He stated that “For the most part, that pattern does not exist outside the House; if there is an agreement that an increase will be jointly funded, it is normally according to the same ratio – for us, that would be 20:10, or two thirds for the Government and one third for us”.⁹¹

Finally, the Government also asked the Trustees to consider a range of alternatives to the current arrangements, including a defined-contribution scheme or a career average scheme. Sir John explained that the latter would “not make much difference” as the scheme is already on a flat level, linked to salaries of back benchers.⁹² He stated that the Trustees would be happy to look at proposals and consider ways in which they could be implemented, but said that in his view, these proposals “were not without their problems”:

For example, have Watson Wyatt told the Government that if we closed down the current scheme to new entrants and said that they would all have to be on a money-purchase scheme, there would be substantial one-off costs related to the funding of the existing, because no new money would be coming in from new Members? We will need to discuss such issues in future...⁹³

The House did not divide on any of the motions or amendments before them; none of the amendments laid on any matter under discussion were moved.⁹⁴

5.2 Review of PCPF triggered

In a Written Ministerial Statement on 17 June 2008, the Leader of the House of Commons announced that the Exchequer contribution to costs of accruing benefits for MPs in service would now rise above 20 per cent of payroll, effectively triggering the need for a major review of the Fund:

In addition, the SSRB report also recognised that “if it becomes likely that, unless action is taken, the Exchequer contribution to the cost of accrual of benefits for MPs in service in the parliamentary contributory pension fund—excluding payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund—would rise above 20 per cent. of payroll, that there should be a major review of the fund”(recommendation 9).

The Government Actuary’s Department has now advised that it anticipates that the cost of accruing benefits would indeed rise above 20 per cent. of payroll. This has effectively triggered the need for the major review recommended by the SSRB, and I

⁹⁰ Ibid, c1712

⁹¹ Ibid, c1713

⁹² Ibid

⁹³ Ibid, c1713

⁹⁴ Ibid, c1718 and c1780

will therefore be asking the SSRB to undertake such a review, supported by a panel of people with relevant expertise.

Given that the review will need to consider, amongst other things, the findings of the Government Actuary's valuation of the PCPF which is to be completed in March 2009, the SSRB would not be expected to report before Spring next year.⁹⁵

The statement was made in response to the publication of Sir John Baker's *Review of Parliamentary Pay and Pensions*, published in June 2008.⁹⁶ The Baker review recommended that any Independent Body tasked with making recommendations about Members' pay should "take into account the value of MPs' pensions as part of total reward":

I therefore believe that the best solution would be for the Independent Body to continue to consider MPs' pension arrangements bearing in mind the unusual career pattern of MPs and the evolution of pensions in the public sector and wider economy. The Independent Body will need to examine whether features of the PCPF are necessary and justified for recruitment and retention and whether the scheme's costs and benefits are reasonable in comparison to pensions elsewhere in the public sector. It should then make recommendations to the fund Trustees and the Government. Although those recommendations could not be applied automatically, they should be regarded as compelling in principle. It would be for the Government and Trustees jointly to consider and act on them as they saw fit, with the consent of the House. However, in any event, the Independent Body must continue to take account of the value of MPs' pensions as part of total reward.⁹⁷

However, the Government's memorandum to the Baker Review had indicated that a separate review of the PCPF would be undertaken:

No financial saving would necessarily be achieved from changing from a final salary scheme. Given the near-term possibility that the Exchequer contribution to the pension scheme reaching 20%, the Government will be coming forward with proposals for the proposed fundamental review. It is to be noted that although the Baker Review's terms of reference include pensions, this is solely to ensure that any pension consequences of the recommendations on pay can be considered and addressed. If the Review adopted the recommendations outlined in this note, there would be no meaningful consequences for pensions.⁹⁸

2008 GAD valuation

The GAD valuation of the Fund as at 1 April 2008 was published on 31 March 2009. This assessed the Exchequer share of accruing benefits at 23.1% of payroll:

1.6 Future Service Assessment The cost of benefits accruing in the PCPF for each year of membership is assessed as 32.2% of scheme payroll. This compares with an assessed cost of 27.4% of pay at the 2005 valuation, with the increase being primarily attributable to changes made to the longevity assumptions.

⁹⁵ HC Deb 17 June 2008 cc46-47WS; See also Commons Leader website, [Question and Answer Style Briefing on Parliamentary Pay and Pensions](#), 17 June 2008

⁹⁶ In January 2008, the House endorsed the Government's decision to establish an independent review of parliamentary pay by Sir John Baker, the outgoing chairman of the Senior Salaries Review Body. The review was prompted by "a general concern ... that it is wrong in principle that MPs should set their own pay". For more information about Members' pay and the Baker Review see Library Standard Note SN/PC/4760, *In brief: Members' pay*

⁹⁷ *Review of Parliamentary Pay and Pensions by Sir John Baker CBE*, June 2008, Cm 7416, para 63;

⁹⁸ *Parliamentary Pay, Allowances and Pensions: Government memorandum to Sir John Baker's review of the mechanism for determining the pay of Members of Parliament*, June 2008, Cm 7418

1.7 Members' contributions to the Fund are expected to average 9.1% of the scheme payroll, compared with 9.3% at the 2005 valuation. The Exchequer's share of the cost of accruing benefits is therefore assessed as 23.1% of payroll, compared with 18.1% at the 2005 valuation.⁹⁹

Because additional contributions are needed to meet the deficit in the Fund, GAD recommended that total Exchequer contribution from 1 April 2009 should be 31.6% of payroll, adjusted to take account of any agreement on cost sharing or cost-capping:

1.8 Recommended Exchequer Contribution Rate Exchequer contributions need to be at a higher level than the Exchequer's share of the cost of accruing benefits in order to amortise the deficit. Amortising the deficit of £50.9m over a 15-year period results in an addition of 8.5% to the Exchequer's share of the cost.

1.9 Taking account of the Exchequer share of future service costs (23.1% of pay) and of the additional contributions needed to meet the deficit (8.5% of pay), I recommend that the rate of Exchequer contribution to be paid from 1 April 2009 should be 31.6% of pensionable salaries.

1.10 Cost-sharing/capping The Senior Salaries Review Body (SSRB), in their report of January 2008, recommended that a form of cost sharing and a form of cost capping should be introduced into the PCPF. These recommendations of the SSRB were endorsed, in principle, by the House of Commons in a vote of the House on 24 January 2008. As it is possible that some form of cost-sharing or cost-capping mechanism may be introduced before the next actuarial valuation of the scheme, the contribution rate recommended to be paid by the Exchequer from 1 April 2009 is expressed as 31.6% of pensionable pay minus the value of whatever changes in member contributions or benefits may be implemented.¹⁰⁰

In a statement on the day of publication of the 2008 valuation, the then Leader of the House Harriet Harman, explained that the Prime Minister had written to the Senior Salaries Review Body in February 2009 asking it to consider the full range of options in its review of the PCPF:

The House resolved on 24 January 2008 to endorse in principle recommendations contained in the report of the Review Body on Senior Salaries (SSRB) on parliamentary pay, pensions and allowances (Cm 7270-I) which capped the Exchequer contribution to the cost of accrual of benefits for MPs and advised that there should be a major review of the fund should it become likely that the Exchequer contribution rises to more than 20 per cent of payroll. Both of these recommendations exclude payments to amortise the accumulated deficit identified in the 2005 valuation of the fund.

Following a warning from the Government Actuary that the Exchequer contribution was likely to rise beyond 20 per cent of payroll, in line with the recommendation made by the SSRB and endorsed by the House, the Prime Minister on 13 February 2009 asked the SSRB to conduct a fundamental review of the pension provision for MPs, Ministers and other parliamentary office holders. The Prime Minister has asked the SSRB to consider the full range of options for reducing the Exchequer contribution and to consider, among other things, the merits of defined contribution or money purchase arrangements.¹⁰¹

⁹⁹ Government Actuary's Department, Parliamentary Contribution Pension Fund. Valuation as at 1 April 2008, HC 345, 31 March 2009, para 1.7

¹⁰⁰ Ibid

¹⁰¹ HC Deb, 31 March 2009, c58-59WS

She explained that the Government's preferred option for achieving a cap on Exchequer contribution rates would include an increase in member contribution rates of around £60 a month:

There are different ways in which the Exchequer contribution as recommended by the SSRB and endorsed by the House could be restricted. We shall be consulting the Trustees of the Parliamentary Contributory Pension Fund and the House of Commons on proposed changes.

The Government's preferred option to achieve the cap on the Exchequer contribution includes an increase in member contribution rates from 10 to 11.9 per cent. of salary (for an accrual rate of 1/40th), and from 6 to 7.9 per cent. (for 1/50th). This would mean that an MP on the 1/40th accrual rate would pay a net increase of around £60 per month on top of the current contribution of £316 per month. This means that the total annual contribution based on 2009-10 salary would be around £4,625. A member on the lower accrual rate would also pay a net additional contribution of around £60 per month. In addition we intend further to extend the cap on MPs' accrual, which is set at two thirds of final salary, to include MPs over age 65 who joined the scheme before 1 June 1989. Both changes would need to be backdated to 1 April 2009. Taken together these measures would mean that the Exchequer contribution remained within the cap recommended by the SSRB and endorsed by the House.¹⁰²

Response

Also responding to the 2008 valuation, the then Liberal Democrat Shadow Work and Pensions Secretary, Steve Webb said:

The pensions of MPs and other well-paid public sector workers have to be brought in line with reality. With members of the public losing their jobs and seeing their pensions plummet, MPs cannot insulate themselves from the harsh realities of the recession.¹⁰³

A January 2008 report by the Conservative Party Democracy Task Force, chaired by the Rt Hon Kenneth Clarke, recommended the closure of the current PCPF to new entrants and its replacement by a defined contribution scheme, with employer and employee contributions at a level set by the review body.¹⁰⁴ The then Leader of the Opposition, David Cameron, was reported to agree that "the current 'very generous' final salary pension scheme for MPs is now indefensible. New MPs should be on a defined contributions scheme."¹⁰⁵

Sir Nicholas Winteron described the situation as unfortunate:

The Government are recommending that there should be a 1.9 per cent. increase in Members' contributions to the pension fund. That will equate to an additional £60 a month out of Members' pay. Bearing in mind that, as of the first day of this month, we have been given a salary increase of 2.33 per cent., which equates to £68 a month, is this not a most unfortunate situation? We should bear in mind that the deficit on the pension fund is not due to Members, although it is a little bit due to longevity. It is mainly due to the fact that the Treasury, as the employer, has had a contribution holiday for 14 years.¹⁰⁶

¹⁰² HC Deb, 31 March 2009, c58-59WS

¹⁰³ Liberal Democrat Press Release, 31 March 2009, [Increasing taxpayer contribution to MPs' pensions spectacular own-goal - Webb](#)

¹⁰⁴ Conservative Party Democracy Task Force, [Trust in Politics](#), 14 January 2008

¹⁰⁵ See, for example, [Guardian blog on David Cameron's press conference on 14 January 2008](#)

¹⁰⁶ HC Deb, 2 April 2009, c1064-5

5.3 Arrangements to cap costs

On 21 April 2009, the then Leader of the House, Harriet Harman made a statement setting out Government proposals to reform the system of allowances to Members.¹⁰⁷ It was also proposed that MPs' pension contributions should increase:

We have taken steps through the SSRB to reform MPs' pension arrangements. In the meantime, in order to contain the cost to the public purse, a proposal will be put before Parliament to increase the contribution required from MPs by around £60 per month for the current year and to extend the scheme's pension limit of two thirds of final salary to all scheme members for future service.¹⁰⁸

On 25 June 2009, the Leader of the House brought forward a Motion to cap the total Exchequer contribution to the PCPF at 28.7% (20% for ongoing benefit accrual, 8.7% for the deficit). An Explanatory Memorandum said:

6. The Government Actuary recommended in his report that the Exchequer contribution should be at a rate of 31.6 per cent of payroll from 1 April 2009 "adjusted to take account of any increase in member's contributions and/or benefit reductions which the Government announces as a consequence of cost-sharing or cost-capping."

7. As announced in the Leader's written statement, the Government intends to cap the Exchequer contribution in line with the House's resolution of 24 January 2008. As per the SSRB recommendation endorsed in that resolution, the capping of the Exchequer contribution at 20 per cent of payroll does not include payments in respect of the accumulated deficit identified at the 2005 valuation. The Government Actuary assessed at the 2005 valuation that the cost of amortising the deficit identified at that time was 8.7 per cent of payroll paid for a period of 15 years. The total Exchequer contribution after capping therefore amounts to 28.7% of payroll (that is, 20 per cent in respect of ongoing accrual of benefits plus 8.7 per cent, in respect of the deficit identified in 2005). The Government therefore proposes that there should be a package of changes to the scheme's member contributions and benefit provisions which is judged by the Government Actuary to make savings of 2.9% of payroll (that is, the difference between 31.6 per cent and 28.7 per cent).¹⁰⁹

The House agreed (without division) to increase Member contribution rates and cap the Exchequer contribution at 28.7% backdated to 1 April 2009. It was also agreed that further proposals should be brought forward to cap the Exchequer contribution for 2009-10 at its 2008-09 level:

Motion made, and Question proposed,

That this House endorses a package of changes to the Parliamentary pension scheme, backdated to 1 April 2009, which is judged by the Government Actuary to make savings equivalent to 2.9 per cent. of payroll, thus capping the Exchequer contribution at 28.7 per cent., consisting of—

(1) an increase in member contribution rates—

(a) from 10 to 11.9 per cent. for a pension building up to an accrual rate of 1/40th of final salary for each year of service,

¹⁰⁷ This is covered in more detail in Library Standard Note SN/PC/5046 Members' allowances – the Government's proposals for reform.

¹⁰⁸ HC Deb, 21 April 2009, c10-11WS

¹⁰⁹ Explanatory Memorandum on the Motion Standing on the Order Paper in the name of the Leader of the House: Parliamentary Pensions, 23 June 2009

- (b) from 6 to 7.9 per cent. for a pension building up to an accrual rate of 1/50th, and
- (c) from 5.5 to 5.9 per cent. for a pension building up to an accrual rate of 1/60th; and
- (2) the application of the scheme's maximum pension limit of two-thirds of final salary to all scheme members for future service.—(Barbara Keeley.)

Amendment made: (a) at end add

'and calls on the Leader of the House to bring forward further proposals which will cap the Exchequer contribution for 2009—10 at its 2008—09 level.'— (Steve Webb.)

Main Question, as amended, put and agreed to.¹¹⁰

The Exchequer contribution in 2008-09, based on the GAD valuation of the fund in 2005, was 26.8% of pensionable pay (18.1% in respect of accruing benefits and 8.7% to fund the deficit).¹¹¹

The cost-saving package agreed on 25 June 2009 was introduced by the *Parliamentary Pensions (Amendment) (No 2) Regulations 2009* (SI 2009 No. 3154):

7.3 On 25 June 2009, the House of Commons endorsed a cost-saving package of changes to the Parliamentary Pension Scheme, backdated to 1 April 2009.

7.4 The agreed package of cost-saving changes includes an increase in member contribution rates from 10 to 11.9 per cent. for a pension building up at an accrual rate of one-fortieth of final salary for each year of service, from 6 to 7.9 per cent. for a pension building up at an accrual rate of one-fiftieth, and from 5.5 to 5.9 per cent. for a pension building up at one-sixtieth.

7.5 Existing members have a one-off option to switch accrual rates (to one fortieth, one-fiftieth or one-sixtieth) from 1 April 2009. Members can choose to backdate this option to 1 April 2008 (or the date of the individual becoming a member of the scheme, if later) if they wish.

7.6 The agreed package of cost-saving changes also includes a change in the application of the scheme's limit on maximum pension. The maximum pension a scheme member can build up is normally two-thirds of final salary and, once that point has been reached, member contributions cease. However, these restrictions do not currently apply to members who joined the scheme before 1 June 1989 in respect of service after the age of 65. The House agreed that the scheme's maximum pension limit should be applied to all scheme members. This means that those who joined the scheme before 1 June 1989 will no longer be able to make contributions to build up benefits after age 65 in excess of the two-thirds limit (benefits built up before 1 April 2009 will not be affected).

7.7 The Government Actuary has advised that the increases in member contribution rates will produce savings of 1.7 per cent. of payroll, and application of the maximum pension limit to all scheme members will produce savings of 1.2 per cent. of payroll, thus saving 2.9 per cent. in total.¹¹²

¹¹⁰ [HC Deb, 25 June 2009, c1018](#)

¹¹¹ [Parliamentary Contributory Pension Fund Accounts 2007-08, 28 April 2009, HC 224](#)

¹¹² [Explanatory Memorandum to the Parliamentary Pensions \(Amendment\) \(No 2\) Regulations 2009 \(SI 2009 No. 3154\)](#)

On 15 December 2009, the Leader of the House said that any further proposals to restrict the Exchequer contribution at its 2008-09 level of 26.8 per cent of payroll would be taken after publication of the SSRB review:

The Leader of the House of Commons (Ms Harriet Harman): The Government are committed to providing public service pension schemes that are affordable and sustainable in the long term, consistent with the principle of fairness for all taxpayers and between generations.

On 3 December I laid before Parliament amendments to the Parliamentary Pensions (Consolidation and Amendment) Regulations 1993. These amendments will bring in the cost-saving changes to the Parliamentary Pension Scheme which I announced in my statement of 31 March 2009 in accordance with the January 2008 recommendations of the Senior Salaries Review Body endorsed by the House on 24 January 2008. The package is judged by the Government Actuary to produce savings of 2.9 per cent. of payroll, which will reduce the Exchequer contribution to the scheme by approximately £1.4 million a year.

The House endorsed the cost-saving package on 25 June 2009 and also agreed that further changes should be brought forward to cap the Exchequer contribution for 2009-10 not at the 28.7 per cent. of payroll level recommended by the Senior Salaries Review Body, but at the lower 2008-9 level of 26.8 per cent.

At request of the Prime Minister, the Senior Salaries Review Body is currently undertaking a fundamental independent review of the Parliamentary pension arrangements. The Prime Minister has asked the Senior Salaries Review Body to consider the full range of options for reducing the Exchequer contribution and to consider, among other things, the merits of defined contribution or money purchase arrangements. The Senior Salaries Review Body aims to conclude its report by the end of the year. The Senior Salaries Review Body will take into account the cost-saving changes we have made, but its chairman has expressed concern that any proposals by the Government to make further such changes at this time could conflict with the Senior Salaries Review Body's recommendations and might appear to compromise its review. The Government's decision on any further proposals will be taken after the publication of the review. Where applicable, those proposals will be informed by the Senior Salaries Review Body's recommendations and will, in compliance with the House of Commons' resolution of 25 June, have the effect of freezing the Exchequer contribution for 2009-10 at the 2008-09 level as a percentage of payroll.¹¹³

5.4 SSRB review of the PCPF

Consultation paper – June 2009

The Review Body on Senior Salaries published a consultation document on 8 June 2009. This explained that the review was focusing mainly on changes to the benefit structure of the scheme in order to address its affordability and sustainability:

What are the options?

6.1 The PCPF scheme is small and self-contained with reasonable administrative costs. The SSRB already takes account of the value of the pension in reaching its recommendations on overall parliamentary pay. This review therefore focuses mainly on changes to the benefit structure of the scheme in order to address its affordability and sustainability.

¹¹³ HC Deb, 15 December 2009, 118WS

6.2 The House has already agreed in principle that Exchequer contributions to the cost of continuing accrual are to be capped at 20% of payroll. Given that the Government Actuary estimates the current required Exchequer contribution to the cost of accrual at 23.1%, the difference must be met by increasing members' contributions, reducing costs or a combination of both. Cost reduction could be achieved by adjusting one or more of the following factors:

- accrual rate;
- definition of pensionable salary;
- normal pension age;
- value of death in service lump sum;
- eligibility for, and value of, survivor benefits (currently 5/8ths of pension);
- eligibility for, and value of, benefits for children;
- further reduction in survivor benefits where the survivor is 'much' younger than the member;
- the 'five-year' guarantee, under which survivors of pensioners who die within five years of retiring are entitled to the full pension until the end of those five years;
- eligibility for, and value of, ill-health retirement pensions;
- commutation factors (i.e. factor for converting pension to lump sum);
- option to purchase added years, and the terms on which they are purchased;
- option to transfer in benefits accrued in another pension scheme, and the terms of the transfer;
- level of reduction in pension when the pension is taken early;
- level of increases to deferred pensions and pensions in payment (currently in line with price inflation).

6.3 A more fundamental change would be to end the final salary basis of the scheme. There exist at least three different arrangements (defined in the glossary) which could be considered:

- Defined benefit, career average arrangements
- Defined benefit, cash balance arrangements
- Defined contribution arrangements (including GPP/Stakeholder)

6.4 Consultation respondents who support a more fundamental change may wish to comment on whether such a change should be introduced only after a future general election, so that potential MPs know what the conditions of service will be before they decide to be candidates, and whether changes should apply to new entrants only or to all future service (i.e. to existing MPs who return to Parliament after the next election, as well as to those newly elected).

6.5 Another way of achieving a transition to a different pension arrangement would be to enrol future Members of Parliament in an existing public sector pension scheme, in the same way that the Mayor of London and members of the London Assembly are in the same local government pension scheme as the staff of the Greater London Authority.

This could be extended to include future service of existing MPs. It might be argued that the high profile of MPs and the interest in the value of their pension arrangements could mean that any scheme to which they are transferred would be subject to a level and frequency of scrutiny that makes the scheme difficult to administer for the majority non-MP membership. However, suitable governance arrangements could be put in place to guard against this.

6.6 Any transition would require measures to protect the benefits which have already accrued to existing members and the income of those already retired. In the event of its discontinuation, agreement would need to be reached on how to run down the existing PCPF – through a buy-out by a secure, reputable insurer capable of meeting its longer term liabilities or by transferring its assets and liabilities to the Exchequer.¹¹⁴

The consultation was open until 31 July 2009. The SSRB was to report to the Prime Minister by the end of 2009.¹¹⁵

Report – July 2010

The report of the SSRB review was published on 26 July 2010.¹¹⁶ The SSRB recommended retaining a Defined Benefit scheme for MPs, but based on career average earnings and with a higher retirement age:

Changes recommended to the PCPF

12. We consider that the best balance between the conflicting pressures of reducing the taxpayer contribution to the PCPF and securing adequate and sustainable pensions for MPs would be achieved by retaining a defined benefit scheme, but based on career average revalued earnings and with a higher retirement age. We propose that this scheme should apply immediately after the next election to all MPs, Ministers and office holders. However, all current MPs would have their service to date preserved and uprated in future by the Retail Prices Index (RPI), with the current normal retirement age of 65.

13. The key features of our recommended revised PCPF are:

Main features of recommended revised parliamentary scheme

Normal retirement age	68
Accrual rate	1/60 th , career averaged
Lump sum	By commutation (actuarially neutral)
Member's contribution	5.5%
Initial Exchequer contribution	10.5%*

¹¹⁴ Review Body on Senior Salaries, [Review of parliamentary pensions. Consultation document](#), June 2009

¹¹⁵ [Department for Business, Innovation and Skills Press Release, 8 June 2009, 'Consultation launched on the future of Parliamentary Pensions.'](#)

¹¹⁶ Review Body on Senior Salaries, [Review of the Parliamentary Contributory Pension Fund 2010](#), July 2010, Cm 7926

Maximum Exchequer contribution	15.5%**
Possibility for member to buy additional pension	Through AVCs on defined contribution basis
Revaluation of career average benefits for active members, deferred pensions and pensions in payment	Lower of RPI and 2.5%
Surviving spouse's or partner's pension	5/8ths member's pension
Death in service	Three months' salary plus lump sum of four times pensionable salary

14. We also recommend that the Government continue paying an additional contribution of 8.7% of payroll until 2021 as agreed following the 2005 valuation.

* This is the expected cost, based on the assumptions used by the Government Actuary's Department (GAD) for its 2008 valuation of the PCPF, and the additional assumptions by GAD about the effect of using the lower of RPI and 2.5% as the revaluation rate.

** As explained in Chapter 5, we propose two separate caps, of 4% on investment risk and 1% on demographic changes.¹¹⁷

The SSRB estimated that its recommendations could reduce the Exchequer contribution to the cost of accruing benefits to 10.5% of salary, or a maximum of 15.5%:

Impact of our recommendations

15. Our recommendations would mean that all MPs would start to accrue at 1/60ths and would pay contributions of 5.5% of salary. The Exchequer contribution would initially be 10.5% of payroll but could vary by up to 5% either side of that figure. There are many permutations which make it difficult to compare directly the effect on MPs' pensions but we have asked the Government Actuary to model a number of different examples. Because past service is preserved, the impact of our proposed changes is less for MPs who have been in the House for several terms already. MPs elected at the next election and joining the new scheme will pay lower contributions, as will the Exchequer, and it follows that their pensions will be significantly lower than under the current scheme. However, we believe those pensions will still be significantly better than those that would have been available under a defined contribution scheme with similar contribution rates.

The reasons for the changes recommended by the SSRB are discussed in chapter five of its report. One that may be of particular interest is the discussion of the merits of moving to Defined Contribution (DC) scheme. This was one of the issues the SSRB was asked to look at when the review was triggered, by the then Prime Minister, Gordon Brown.¹¹⁸

The SSRB said the simplest solution would have been for it to recommend the closure of the final salary scheme and its replacement by a DC scheme.¹¹⁹ However, it recommended retaining a DB pension scheme, albeit to one where future pension benefits would be based

¹¹⁷ Ibid, summary and recommendations, page ix

¹¹⁸ HC Deb, 31 March 2009, c58-59WS

¹¹⁹ Review Body on Senior Salaries, *Review of the Parliamentary Contributory Pension Fund 2010*, Cm 7926 , July 2010, para 5.3

on career average earnings rather than final salary.¹²⁰ It considered that this arrangement would provide “the best balance between the conflicting pressures of reducing the taxpayer contribution to the PCPF and securing adequate and sustainable pensions for MPs”.¹²¹

The SSRB considered that there would be advantages in moving to a DC scheme, in that it would remove all risk to the Exchequer in terms of ongoing accrual and would give members freedom to manage their own savings and investments. However, disadvantages were that DC schemes cost more and were less efficient than DB schemes and retirement income was less predictable:

4.21 The current PCPF could be closed and replaced with a defined contribution pension scheme. The main advantage of such a move would be to remove all risk for the Exchequer in terms of the cost of ongoing accrual, although there would still be a considerable legacy of liabilities for past service.

4.22 A defined contribution scheme would also give members the freedom to manage their own savings and investments. For example, we mentioned earlier one respondent to our consultation who noted that it was a disadvantage of the current arrangements that he could not choose to invest in ‘ethical’ assets. Defined contribution schemes give greater flexibility in terms of allowing members to choose how much to save for their retirement and to fit this in with other calls upon their salary at different points in their career. For example, members may wish to put considerably more of their salary towards their pension when they have a period of high earnings as an office holder or Minister.

4.23 A defined contribution scheme could also be designed to address any issues of inequity in the PCPF. If all members receive the same employer contribution, then in one sense all members receive the same benefit. However, as noted above, there would be an inequity in outcome because younger members have longer to invest their contributions before drawing on them in retirement. Some defined contribution schemes are therefore designed with tiered employer contribution rates, meaning that employers contribute more to the pensions of older members.

4.24 The disadvantages of a defined contribution arrangement for parliamentarians are the same as for all other employees. The higher cost and lower efficiency of defined contribution schemes in comparison with defined benefit schemes (discussed at paragraphs 2.21 – 2.23) mean that, if contributions to each are the same, the likely retirement income for a member of a defined contribution scheme will be much lower than for a member of a defined benefit scheme. Retirement income is also much less predictable under a defined contribution scheme, because it will depend both on the level of the individual’s fund and on the annuity market at the time of retirement.

4.25 Ultimately, the risk of inadequate pension provision will be borne by society as a whole if large numbers of pensioners have to rely on state provision of services and benefits because they have no or inadequate occupational pensions. However, it could be argued that this concern is not highly relevant to the pensions of parliamentarians: those people most likely to end up qualifying for means-tested benefits in retirement are those currently in low-paid employment, and at present the MPs’ salary puts them at around the 95th percentile of earnings. Under a defined contribution arrangement, the cost of providing a pension which keeps parliamentarians from depending on state provision in retirement would not therefore be great, expressed as a percentage of payroll; however, the cost is likely to be greater for everyone, and give greater insecurity for members, than a defined benefit arrangement.

¹²⁰ Ibid, para 4.14-4.17

¹²¹ Ibid, para 11, page ix

The reason for moving to career average revalued earnings rather than final salary for future service benefits was to reduce volatility in the valuations of the fund:

Moving to a career average scheme would also protect the past service liabilities from one source of volatility. At every valuation, the Government Actuary must make an assumption about what the final salary of currently accruing members will be; if that assumption turns out to be wrong, then it will have a negative or positive impact on the funding level of the PCPF.¹²²

It was not expected to make much difference to the pensions MPs receive:

MPs do not have a normal 'career structure' and pay progression: they do not receive increments or performance pay so all MPs receive the same salary unless they become Ministers or office-holders. Unless there is a large increase in all MPs' salaries during an MP's career, moving to a career average scheme is unlikely to have a great impact on the member's retirement income or the estimated cost of the scheme.¹²³

Substantial costs savings were expected from the proposed increase in the normal retirement age:

5.11 Many pension schemes have responded to the increase in longevity by increasing the specified normal retirement age. Public sector schemes including the PCPF now all have a specified normal retirement age of 65 for new entrants, with the exception of the uniformed services who have lower ages and judges, most of whom must retire at 70. It is important to understand that the specified normal retirement age in a pension scheme is the age at which pensions can be taken unreduced – members can retire earlier than the specified normal retirement age, but their pensions would usually be reduced to reflect the fact that they will be drawn for a longer period.

5.12 There is a growing acceptance that people will have to work for longer in order to provide for their increasingly long retirements. The Government has introduced legislation to increase the state retirement age gradually from 2024 so that by 2046 it will be 68.

5.13 Increasing specified normal retirement age substantially reduces the cost of pension provision. The Government Actuary has calculated that increasing the specified normal retirement age of the PCPF by 1 year reduces the cost of accrual by approximately 1% of payroll. It would be possible to adjust the retirement age in parallel with improvements in longevity, such that the cost of accrual is not increased by improved longevity. Indeed, in their oral and written evidence, the PCPF Trustees advocated the use of retirement age as the prime lever to control increases in the cost of accrual from longevity, both at this current reform and at future valuations.

5.14 We believe that, given the pressures on the PCPF from rising longevity and the need to reduce costs, specified normal retirement age should be increased in line with wider trends in society.

The SSRB recommended that "for future accrual in the PCPF, the specified normal retirement age should be set at 68." It pointed out that existing Members would not experience this as a sudden increase:

¹²² Ibid, para 4.16

¹²³ Ibid, 4.14

Although we do not propose phasing in the change, current members of the PCPF will not experience it as a sudden increase to retirement age because the change will apply only to future accrual. All pension benefits accrued up to the point of change will be payable (unreduced) from original retirement age. Where members have accrued benefits which are payable at different retirement ages, an actuarial reduction can be applied to those benefits which members wish to take before the specified normal retirement age.¹²⁴

Another significant change recommended was that there should be a single accrual rate (1/60th), rather than the existing three options (1/40th, 1/50th and 1/60th). It said the higher accrual rates were not as generous as they appeared at first sight, because a “significant part of the cost was borne by members via the higher contribution of 11.9% of salary (compared to 5.9% for 1/60th accrual). However, it did have an impact on the Exchequer in terms of risk:

The greater the benefits promised by the scheme, the greater the risk the Exchequer takes on in guaranteeing those benefits should the assumptions about the cost of accrual and return on investments turn out to have been optimistic. Lowering the overall rate of accrual would therefore reduce the risk of a sizeable deficit emerging in the future.¹²⁵

The SSRB also recommended a new approach to cost-capping and cost-sharing. For example:

Recommendation 16. We recommend that the Exchequer should absorb any increases or decreases in the cost of accrual due to investment factors within 4% of payroll of the initial figure.

Recommendation 17. We recommend that the Exchequer should absorb any increases or decreases in the cost of accrual due to demographic (i.e. non-investment) factors within 1% of payroll of the initial figure.

Recommendation 18. We recommend that any increases or decreases in the cost of accrual expressed as a percentage of pensionable payroll arising from changes in the number of active members be excluded from the cap.¹²⁶

5.5 Lord Hutton’s review of public service pensions

Responding to the SSRB’s [Review of the Parliamentary Contributory Pension Fund 2010](#), published in July 2010, Leader of the House, Sir George Young, said the Conservative-Liberal Democrat Coalition Government believed that decisions on the future of the scheme should be informed by subsequent developments, including Lord Hutton’s Independent Public Service Pensions Commission, which it had set up to review public service pensions more generally:

The SSRB’s report provides helpful and thoughtful advice and a timely input into the current debate on public service pension arrangements. We are grateful to the SSRB for its work and for its willingness to tackle this matter thoroughly and independently.

In taking matters forward, we need to be mindful of developments that have taken place since the SSRB carried out its work:

¹²⁴ Ibid, para 5.16

¹²⁵ Ibid, para 5.7

¹²⁶ Ibid, page xi

1. The House has legislated to make the determination of hon. Members' allowances and, from 2012-13 their salary and pensions, independent of the House. The independent determination and administration of these matters through the establishment of the Independent Parliamentary Standard Authority (IPSA), is a crucial part of the process of restoring trust in Parliament.

2. As stated in the coalition agreement, the Government have committed to consulting IPSA on how to move away from the generous final salary pension scheme for Members of Parliament. IPSA is due to take over responsibility for Members' pension arrangements in 2012-13, as originally recommended by the Committee on Standards in Public Life in November 2009 and provided for in the Constitutional Reform and Governance Act 2010.

3. We have established, under the chairmanship of Lord Hutton, an Independent Public Service Pensions Commission and asked the Commission to make recommendations aimed at ensuring the ongoing affordability, sustainability and fairness of public service pension arrangements.

4. The Chancellor of the Exchequer announced in his Budget statement that, from April 2011, the consumer prices index (CPI) will be used for the price indexation of all benefits, tax credits and public service pensions.

The parliamentary scheme is not included explicitly within the scope of the Hutton Commission's review. However, the Government strongly believe decisions about the parliamentary scheme should be informed by the Commission's recommendations in respect of public service pensions more broadly, and that the SSRB report should be available as evidence to the Commission.

We will therefore await Lord Hutton's recommendations on public service pensions. However, in the specific case of MPs, there is broad party political acceptance that the current final-salary pension terms for Members of Parliament are not sustainable and that reform is needed. We anticipate that the current scheme for MPs will end. We propose to consult IPSA on these matters and to make a further statement after Lord Hutton has published his findings.¹²⁷

The Commission had been set up in June 2010. Its terms of reference, were to:

To conduct a fundamental structural review of public service pension provision and to make recommendations to the Chancellor and Chief Secretary on pension arrangements that are sustainable and affordable in the long term, fair to both the public service workforce and the taxpayer and consistent with the fiscal challenges ahead, while protecting accrued rights.¹²⁸

It was invited to report in two stages:

As part of the review, the Commission is invited to produce an interim report by the end of September 2010. This should consider the case for delivering savings on public service pensions within the spending review period – consistent with the Government's commitment to protect those on low incomes - to contribute towards the reduction of the structural deficit. The commission is invited to produce the final report in time for Budget 2011.¹²⁹

¹²⁷ [HC Deb, 26 July 2010, c70-71WS](#)

¹²⁸ [HM Treasury Press Release, 20 June 2010, Chancellor announces John Hutton to chair commission on public service pensions](#)

¹²⁹ [Independent Public Service Pensions Commission: Interim Report, 7 October 2010, p133](#)

The Commission's interim report, published in October 2010, concluded that the most effective way of making short-term savings was to increase member contributions and that there was a clear case for doing this.¹³⁰ In response, the Government said it would implement progressive changes to the level of employee contributions across the public service (except for the armed forces), equivalent to an average of 3.2 percentage points, to be phased in from April 2012.¹³¹ This would not apply to the armed forces. Recommendations of the Commission's final report, published in March, included replacing existing schemes with new ones, with pension entitlement based on career average earnings rather than final salary, and increasing the normal pension age.¹³² The Government said it accepted Lord Hutton's recommendations as a basis for consultation and would bring forward proposals for change in the autumn.¹³³ Chancellor of the Exchequer, George Osborne said he believed the House should also recommend similar changes to the pensions of MPs:

I confirm today that the Government accept Hutton's recommendations as a basis for consultation with public sector workers, unions and others. There should be no cherry-picking on either side. I believe that this House should also recommend similar changes to the pensions of MPs.¹³⁴

On 29 June, the Prime Minister, David Cameron, agreed that MPs should be subject to the same changes as others:

Claire Perry (Devizes) (Con): The Prime Minister alluded earlier to the contract between taxpayers and public servants, but there is also a contract between taxpayers and MPs. Does he agree that MPs should be in the vanguard of reforming pensions by reforming our own, so that we can look our public sector constituents in the face?

The Prime Minister: I absolutely agree with my hon. Friend. Members of the House are public sector workers too, and we should be subject to exactly the same changes that we are asking others to take on. Therefore, the increase in contributions should apply to the MP system, even though we already pay in quite a lot. We are saying that right across the board, the increase in pension contributions is right to create a healthier long-term system.¹³⁵

On 14 July, Leader of the House, Sir George Young, made a statement on the next step in the Government's approach to MPs' pensions. He would table a motion proposing that IPSA should introduce a new pension scheme for MPs by 2015:

Members' Pensions

The Leader of the House of Commons (Sir George Young): I am today announcing the next step in the Government's approach to MPs' pensions.

On 26 July 2010, I issued a written ministerial statement (*Official Report*, column 70WS) on the publication of the Senior Salaries Review Body's (SSRB) fundamental review of parliamentary pensions. This statement also set out our longer-term approach to the reform of MPs' pensions, including our expectation that the current final salary terms of the scheme would end. The SSRB report was a thoughtful and

¹³⁰ [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010

¹³¹ HM Treasury, [Spending Review – policy costings](#), October 2010; [HC Deb, 24 May 2011, c589W](#)

¹³² [Independent Public Service Pensions Commission: Final Report](#), 10 March 2011

¹³³ HM Treasury, [Budget 2011](#), para 1.132

¹³⁴ [HC Deb, 23 March 2011, c961](#)

¹³⁵ [HC Deb, 29 June 2011, 956](#)

welcome consideration of the pension arrangements for Members of Parliament. However, as recognised at the time, there had been several developments in the area that could not be ignored in reaching a sustainable conclusion on the issue.

The Constitutional Reform and Governance Act 2010, which achieved Royal Assent in April 2010, conferred powers on the Independent Parliamentary Standards Authority (IPSA) to determine hon. Members' salary and pensions, independently of the House. The independent determination and administration of these matters is a crucial part of the process of restoring trust in Parliament, and any decision to defer the move to independence will result in MPs continuing to determine their own remuneration, which the House has firmly rejected.

Additionally, the Independent Public Service Pensions Commission, chaired by Lord Hutton of Furness, was established in June 2010, and published its Final Report on 10 March 2011. We have consistently made clear that parliamentary pensions must be reformed in the light of the Commission's findings and subsequent application to other public service schemes. There is no case for MPs being treated differently from other public servants on this issue.

As the next step, I will table a motion before the House rises for the summer recess. This will invite the House to support the approach to public service pension reform set out in the Final Report of the Independent Public Service Pensions Commission. The motion will propose that IPSA should introduce a new pension scheme for MPs by 2015, informed by the Commission's findings, and their subsequent application to other public service pension schemes. In recognising the case for an increase in pensions contributions made in Lord Hutton's interim report, the motion will invite IPSA to increase contribution rates for hon. Members from 1 April 2012 in line with changes in pension contribution rates for other public service schemes.

The motion, which will be debated, will also reassert the importance of independent determination of MPs' remuneration. Subsequently, I will commence the relevant sections of the Constitutional Reform and Governance Act 2010, transferring all future responsibility for MPs' pensions to IPSA.¹³⁶

The motion was debated on 17 October 2011. It said:

That this House reasserts its view that the salaries, pensions and expenses scheme for hon. Members ought to be determined independently of this House; accordingly invites the Leader of the House to make an order commencing those provisions of the *Constitutional Reform and Governance Act 2010* which transfer responsibility for the pensions of hon. Members to the Independent Parliamentary Standards Authority (IPSA); supports the approach to public service pension reform set out in the Final Report of the Independent Public Service Pensions Commission chaired by Lord Hutton of Furness; believes that IPSA should introduce, by 2015, a new pension scheme for hon. Members which is informed by the Commission's findings and their subsequent application to other public service pension schemes; recognises the case for an increase in pension contributions made in Lord Hutton's interim report; and accordingly invites IPSA to increase contribution rates for hon. Members from 1 April 2012 in line with changes in pension contribution rates for other public service schemes.¹³⁷

Introducing the debate, Sir George Young said agreement to the motion, would mean the House would have:

¹³⁶ [HC Deb, 14 July 2011, c51-2WS](#)

¹³⁷ [HC Deb, 17 October 2011, c629](#)

[...] protected the principle that MP's remuneration should be independent assessed and determined and demonstrated to our constituents that we understand that Parliament must not be insulated from the fiscal circumstances affecting the rest of the country.¹³⁸

He explained the arrangements following the transfer to IPSA as follows:

The administration will be performed by the trustees, there is no change in that. The contribution rates and ultimately the shape of the scheme will be determined by IPSA, which will set the rules. The trustees will continue to administer the scheme, with some slight change in their membership to reflect IPSA's new involvement.¹³⁹

He said the second part of the motion, regarding reform of the scheme, was "purely declaratory", expressing a view "on behalf of the House, that we believe we should be treated no better or worse than those in other public sector schemes." He said this should apply to contribution rates as well as other changes:

If the House accepts the principle that hon. Members should not be out of step with changes that affect other public service schemes, we should also accept that our contributions should rise at the same time. I can therefore confirm that the Government propose to increase contributions to the ministerial scheme, with increases being applied from 1 April next year on a staged basis, and we will consult on that proposal as required by the Constitutional Reform and Governance Act.¹⁴⁰

Christopher Chope tabled an amendment that would delete the second half of the motion. He supported the first part (regarding the transfer to IPSA so that MPs' pensions would be determined independently) but was concerned that this was contradicted by the second part, which invited Members to "sign up to a selective list of propositions, including that there should be an increase in contribution rates."¹⁴¹

Chair of the PCPF Trustees, Brian Donohoe, said that it was important for IPSA to have "independence, which is clearly documented in legislation". IPSA would be required to consult before making changes:

IPSA can make changes to MPs' future pension benefits and contributions only after formal consultation with the trustees, the majority of whom, following the transfer of the power [...] will be Members of Parliament or former Members of Parliament. That is an enhancement of the trustees' powers, because there is currently no such requirement.¹⁴²

A decision on Member contribution rates would ultimately be one for IPSA:

The increase in contributions is the main point of any argument on this matter. I have already argued, and I want to reinforce the point, that IPSA must be seen in every respect as independent. I see no reason why the House should indicate that it would like our pension contributions to be treated in the same way as those of other public service workers. IPSA has a statutory duty to act independently of Parliament, and by giving such an indication, the House is putting undue pressure on IPSA. It should not

¹³⁸ Ibid, c629

¹³⁹ Ibid, c632

¹⁴⁰ Ibid, c634

¹⁴¹ Ibid, c642

¹⁴² Ibid, c646-7

be influencing IPSA in that way. IPSA must undertake its role as laid down in statute, and in no other way.¹⁴³

It should take account of the results of the 2011 valuation and recent contribution increases:

Clearly, the results of the 2011 valuation of the scheme will shortly be finalised, which I take as a very strong argument for leaving the decision about increases in contributions, if there are to be increases, to IPSA itself. As far as we are concerned, we are in a cost-sharing scheme, as a result of which we must see what the actuary says about any changes to contribution rates before taking a decision that puts us in line with anybody else. As Members will know, there have been increases to pension contributions over a relatively recent period, which I do not think any other members of the public sector have had to face. I suggest that it is important to take that into account, as we are told it will be by IPSA.¹⁴⁴

Shadow Leader of the House, Angela Eagle, explained that the Labour Members supported the transfer to IPSA and would not, therefore, oppose the motion:

The order that we are debating is necessary to commence the provisions of section 40 and schedule 6 of the *Constitutional Reform and Governance Act 2010*. Those parts of the Act transfer responsibility for hon. Members' pensions to the Independent Parliamentary Standards Authority. That legislation was passed, with all-party agreement, by the previous Government. It gained Royal Assent in April last year, just before the general election, and there was a general feeling that it was wrong for existing arrangements to be left unchanged, and that the independent determination of salaries should extend to cover pay and pensions. Having voted for the primary legislation that brings about that switch of responsibilities, we Labour Members will not oppose the motion today.¹⁴⁵

She thought most MPs would agree that they could not expect to be "treated differently from other public sector workers". However, she did not wish to pre-empt the outcome of negotiations between the Government and trade unions on public service pension reform.¹⁴⁶

Winding up the debate for the Opposition, Angela C Smith, explained that the Opposition's support for the motion should not be taken as an endorsement of the Government's approach to public sector pensions:

[...] it must be understood that we may not entirely support the Government's approach to the implementation of the Hutton report. We believe some of the statements made in the Hutton report are absolutely right, but we do not necessarily support everything the Government are doing to implement it.¹⁴⁷

Responding, David Heath said it was perfectly proper for the House to take a view on what should happen to MPs' pensions:

I think that it is perfectly proper for the House to take a view. We are statutory consultees on the final schemes that will be independently worked out by IPSA if the motion is passed. Although I think that it is important that we have an opinion, that opinion, which must have some value, will not dictate the final result. I repeat that I do

¹⁴³ Ibid, c647

¹⁴⁴ Ibid, c647-8

¹⁴⁵ Ibid, c636

¹⁴⁶ Ibid, c641

¹⁴⁷ Ibid, c657

not believe that we should be in a different position from other people in the public sector.¹⁴⁸

The House agreed to Sir George Young's motion. Christopher Chope did not move his amendment.¹⁴⁹

The Order bringing into force the provisions of transferring responsibility to IPSA came into force on 24 October 2011. The Explanatory Note says:

The commenced provisions—

— provide that the IPSA may make a scheme about the administration and management of the Parliamentary Contributory Pension Fund (paragraph 8 of Schedule 6);

— provide that the IPSA may make a MPs' pension scheme (paragraph 12 of Schedule 6);

— provide that the Minister for the Civil Service may make a Ministers' etc pension scheme (paragraph 16 of Schedule 6);

— detail the provision which may be included in the schemes (Part 2 of Schedule 6); and

— make amendments and transitional provision in relation to Parliamentary and other pensions (in Part 3 of Schedule 6) including providing for the existing regulations which deal with Parliamentary pension schemes to have effect as if they were the administration scheme, MPs' pension scheme and Ministers' etc scheme made under paragraphs 8, 12 and 16 of Schedule 6 (paragraph 44(1) of Schedule 6).¹⁵⁰

6 Transfer of responsibility for oversight to IPSA

6.1 Constitutional Reform and Governance Act 2010

On 19 May 2009, the then Speaker of the House of Commons Michael Martin made a statement on Members' Allowances. He had convened a meeting of party leaders to make decisions on the operation of parliamentary allowances pending the recommendations of Sir Christopher Kelly's Committee on Standards in Public Life (CSPL).¹⁵¹ The meeting had received a paper from the Prime Minister proposing a move to regulation by an independent body:

The meeting also received a paper from the Prime Minister, which was endorsed by the other party leaders, calling for a fundamental reform of allowances—moving from self-regulation to regulation by an independent body. The Government will consult widely on this proposal.¹⁵²

¹⁴⁸ *Ibid*, c658

¹⁴⁹ *Ibid*, c660

¹⁵⁰ *The Constitutional Reform and Governance Act 2010 (Commencement No. 6, Specified Day and Transitional Provision) Order 2011* (SI 2011/2485)

¹⁵¹ For further information, see SN/PC/5046 [Members' allowances – the Government's proposals for reform](#)

¹⁵² HC Deb, 19 May 2009, c1421W-2

It was proposed that this body would “have a role in determining the arrangements for MPs’ pensions.”¹⁵³ The *Parliamentary Standards Act 2009* introduced a statutory Independent Parliamentary Standards Authority (IPSA). However, it did not contain provision giving IPSA responsibility for pensions.¹⁵⁴ In November 2009, the Committee on Standards in Public Life (CSPL) recommended that:

The independent determination of MPs’ pay and pensions should be entrenched in primary legislation in the same way as expenses. The independent regulator should therefore be given statutory responsibility for setting MPs’ pay levels and overseeing MPs’ pensions as well as for dealing with expenses.¹⁵⁵

On 10 December, the then Leader of the House, Harriet Harman said the Government would bring forward legislation to give IPSA responsibility for MPs’ pensions from 2011-12.¹⁵⁶

Amendments were tabled to the *Constitutional Reform and Governance Bill 2008-09 to 2009-10*.¹⁵⁷ Introducing the amendments, the then Justice Secretary, Jack Straw, explained the broad intent:

New schedule 9 would provide for IPSA to make pension schemes for MPs, and for the Minister for the Civil Service to make pension schemes for Ministers and certain other officeholders, such as the Leader of the Opposition. That contrasts with the current arrangements, whereby the Leader of the House determines pension arrangements through regulations.¹⁵⁸

He explained that the Government had had discussions with the PCPF trustees on a number of issues, in particular, protection of accrued rights and the power to appoint trustees.¹⁵⁹ He would bring forward further amendments at Report Stage, if necessary.¹⁶⁰

The Bill was further amended at Report Stage on 2 March 2010. The then Justice Secretary, Jack Straw, explained that the Government amendments would: provide protection for accrued rights consistent with that provided to members of other occupational pension schemes; ensure the PCPF would continue to be a trustee-based scheme with appropriate member representation; and require IPSA to obtain the trustees’ consent before making changes regarding the administration of the scheme and management of its assets:

The first concern was that there should be proper safeguards for hon. Members’ accrued pension rights. My aim is to ensure that the statutory safeguards afforded to members of other occupational pension schemes broadly apply to the parliamentary scheme. As with statutory protection for pension schemes elsewhere, amendment 74

¹⁵³ House of Commons Deposited Paper, Dep 2009-1474

¹⁵⁴ *Parliamentary Standards Act 2009*, section 5 (9); The background to this is discussed in more detail in Library Research Paper 09/061, *Parliamentary Standards Bill*. See also SN/PC 5167, *The establishment of the Independent Parliamentary Standards Authority*.

¹⁵⁵ Committee on Standards in Public Life, *MPs’ expenses and allowances – Supporting Parliament, safeguarding the taxpayer*, Twelfth Report, Cm 7724, November 2009; This is covered in more detail in The CSPL report is covered in more detail in Library Standard Note SN/BT 5188, *Committee on Standards in Public Life’s Review of Members’ Allowances*.

¹⁵⁶ HC Deb, 10 December 2009, c35-8WS

¹⁵⁷ Background information on the Bill can be found in Library Research Paper 09/73, *Constitutional Reform and Governance Bill*

¹⁵⁸ HC Deb, 1 February 2010, c55

¹⁵⁹ *Ibid*, c56

¹⁶⁰ *Ibid*, c82

would put a double lock on any provision adversely changing accrued pension rights. It would first be necessary for the trustees to consent to the scheme making such provision and, secondly, each member would have to give his or her informed consent to any changes to accrued rights.

It is the Government's view that in giving such approval, and indeed exercising any of their other functions, the trustees would need to act in the best interests of the members in accordance with their clear fiduciary duties as trustees. That protection means that if IPSA were to change the rules of the scheme, the pension entitlements that other hon. Members and I have would be safeguarded if we left service immediately before any change. No adverse changes could be made to that pension entitlement without the agreement of the trustees or our individual consent.

Secondly, there were concerns that schedule 7, as originally drafted, left open to doubt whether the new arrangements ensured the continuation of a trustee-based scheme with appropriate member representation on the board of trustees. Amendment 64 would put that beyond doubt and set out on the face of the Bill the structure of the board of trustees. The amendments provide for a board of 10 trustees, one of whom would be appointed by IPSA, a second by the Minister for the Civil Service, while the remaining eight would be member-nominated trustees. It will be left to the trustees collectively to make appropriate arrangements for the nomination and selection of the member-nominated trustees, but such arrangements must involve all members of the MPs' and Ministers' pension schemes.

The amendments include appropriate transitional provisions, so that there can be a managed progression from the current board of trustees to the new one, but the existing trustees will continue to be trustees until the end of the transitional period. There is also provision for the first eight member-nominated trustees to be chosen from among the existing trustees.

Thirdly, amendment 66 would require IPSA to obtain the consent of the trustees before making the administration scheme under paragraph 3 of schedule 7. This is an appropriate further safeguard, given that the administration scheme will set out the trustees' core responsibilities in respect of the administration of the parliamentary contributory pension fund and the management of its assets.

I have considered very carefully whether we have got the balance right between the administration scheme and the MPs' pension scheme. I know that this was another issue that has troubled the trustees. After much discussion, I am satisfied, and I hope that the trustees are too, that we have got the demarcation between the two schemes right. The pension scheme will determine the full range of pension benefits and entitlements. In accordance with the overarching principle of independent determination, these are properly matters for sole determination by IPSA, albeit-as the provisions in the Bill make clear-after consultation with the trustees, the Government Actuary, the Senior Salaries Review Body and others.¹⁶¹

Sir John Butterfill, as chair of the Trustees, had tabled a number of amendments. Although the Justice Secretary considered some of these to be unnecessary, he recommended that others should be accepted by the House.¹⁶² These included:

- Provision for more flexibility in the arrangements for appointing trustees;
- Requirement for Treasury consent regarding the remuneration of trustees;
- Requirement for IPSA to have the trustees' consent before making certain changes;

¹⁶¹ [HC Deb, 2 March 2010, c855-4](#)

¹⁶² [HC Deb, 2 March 2010, c855](#)

- An amendment to ensure the protection arrangements for accrued rights were consistent with those applying to private sector schemes and to ensure that ‘contingent rights’ (such as ill-health benefits) were also protected.¹⁶³

The Justice Secretary believed that the proposals achieved the necessary balance. However:

If it transpires following the election-it will have to be then, but I hope that this will become law-that because of the speed with which we have had to undertake these measures there are some glitches in the drafting, the House will have to return to the matter.¹⁶⁴

The *Constitutional Reform and Governance Act 2010* received Royal Assent in April 2010. The Order commencing section 40 and Schedule 6 came into force on 24 October 2011.¹⁶⁵

6.2 The transfer to IPSA

Following Royal Assent, the next legislative step to transfer responsibility for MPs’ pensions to IPSA, is for the Government to lay an Order to commence the relevant sections of the Act (section 40 and Schedule 6).

Once the Order has been laid, the legal structure of the PCPF will change. Whilst it will remain a statutory scheme, the rules governing it will no longer be set in regulations, rather the rules will become an IPSA scheme, with the power to amend it being vested in IPSA (subject to various constraints – see below). The practical effect is that the following general powers in relation to the PCPF will be transferred to IPSA:

- Determination of future service pension benefits and member contribution rates for MPs and certain Office Holders (i.e. Committee chairs and Deputy Speakers) subject to consultation with various bodies (such as the Speaker, the Trustees, the Government Actuary’s Department (GAD) and the Senior Salaries review Body). The consent of the trustees is needed in matter conferring “functions” under the PCPF (such as determining whether an ill-health pension should be awarded);
- The making of amendments in relation to management and administration of the PCPF, subject to the consent of the Trustees, and after consultation with other interested parties (such as the Government Actuary’s Department);
- The appointment of one trustee to the PCPF Trustee Board; and
- Some of the powers and responsibilities currently vested in the Leader under the *Parliamentary and Other Pensions Act 1987*, in relation to MPs and certain Officer Holders (as above). For example, once the Order is laid, the Trustees would need to consult IPSA and the Minister for the Civil Service, rather than the Leader, in relation to changes to the Statement of Investment Principles.

The Exchequer contribution rate will continue to be determined by the GAD as part of the triennial valuation process.¹⁶⁶ Although IPSA has power to set a differential rate of Exchequer contribution (as does the Leader currently), this is subject to the consent of the Trustees (and

¹⁶³ Ibid, c862-4

¹⁶⁴ Ibid, c865

¹⁶⁵ The provisions on parliamentary pensions are in section 40 and schedule 6.

¹⁶⁶ The next valuation is to show the position of the scheme as at 31 March 2011

HM Treasury and the Minister for the Civil Service) if the contribution were to be lower in any financial year than that recommended by GAD.

By the same Order, the Minister for the Civil Service will be given power to determine future service benefits in relation to Ministers' pensions and to appoint one Trustee (in addition to any appointment made by IPSA).¹⁶⁷

In July 2010, the Government said that, prior to the transfer, it would consult with IPSA on "how to move away from the generous final-salary pension scheme for MPs."¹⁶⁸ The Order transferring responsibility to IPSA came into force on 24 October 2011.¹⁶⁹

6.3 Debate on appointment of trustees

In a debate on the *Pensions Bill 2007-08* (now the *Pensions Act 2008*) on 17 July 2008, Lord Fowler argued that Parliamentary Contributory Pension Fund (PCPF) should no longer be exempt from the requirement imposed on other pension schemes that at least one third of pension trustees should be elected by members of the pension fund.¹⁷⁰ He explained the current arrangements for appointing trustees:

The current position is that eight of the 10 trustees are serving Members of Parliament, appointed by the Whips; one, as we heard, is a Member of this House, appointed by the Whips here; and one has been nominated by the association representing former Members of Parliament—a step taken only recently, though it is a step. All of them are members of the scheme; there is no independent member of any kind on the trustee board. In other words, there is no truly independent member and no independent chairman. I emphasise that this is not a criticism of the current chairman, who has done a great deal to try to rectify some of the faults in the present system.¹⁷¹

He explained that until recently the PCPF had employed no professional pensions expertise:

As extraordinary as it might seem, the fund was run by the Fees Office. As the Treasury took the view that the cost of professional pensions expertise was unnecessary, no such expertise was available. It is to the credit of the pension fund chairman and the other trustees that that position has changed. However, it has changed only recently.¹⁷²

The then Parliamentary Under Secretary of State, Lord McKenzie, responded that the route forward was to make "representations to the Leader of the House of Commons, who is responsible for those regulations" and offered to facilitate this.¹⁷³

Lord Fowler raised the issue again on 27 October. Lord McKenzie provided an update on the Government's thinking:

I have been given assurances that the secretariat to the trustees is now staffed by suitably qualified pensions experts, and that the day-to-day administration has been outsourced to a reputable third party. I understand that the current trustees have the broad range of skills and experience that a body of this type looks for, and that they

¹⁶⁷ Source PCPF Secretariat

¹⁶⁸ [The Coalition – Our Programme for Government](#) (May 2010)

¹⁶⁹ [The Constitutional Reform and Governance Act 2010 \(Commencement No. 6, Specified Day and Transitional Provision\) Order 2011](#) (SI 2011/2485)

¹⁷⁰ HC Deb, 17 July 2008, c1377-80

¹⁷¹ Ibid, c1380

¹⁷² Ibid, c1378

¹⁷³ Ibid, c1384

have either sat the relevant examinations of the Pensions Management Institute or are undergoing a course of study.

Member involvement is the other issue which the Deputy Leader is looking at. As the noble Lord knows, there is already involvement in the running of the parliamentary pension scheme by members of the scheme. The scheme regulations require all the trustees to be either Members of the other place or former Members who are entitled to a pension from the scheme.

However, it is essential that noble Lords have confidence in the running of the scheme and it is clear that changes might be necessary to the appointment process to instil a sense of ownership. The Deputy Leader will continue to explore ways of doing this with the noble Lord, Lord Fowler, and other stakeholders.

I must admit that we do not believe that the major changes that the noble Lord proposes are appropriate at this stage, particularly in advance of the major review of the parliamentary pension arrangements announced by the Leader of the other place in a Written Ministerial Statement on 17 June. The interaction between the various pieces of legislation is complex and we do not yet have a consensus on exactly what should be done. As such it is right that we continue to look at and talk about this issue.

I assure the noble Lord, however, that, as the former Deputy Leader of the other place made clear in her meeting with him, any changes to the selection process and, if it is felt appropriate, the removal of the Pensions Act exemption could be achieved without the need for primary legislation, which is one of the points on which the noble Lord pressed me particularly.

The noble Lord also asked whether electoral college arrangements would be possible. I understand that that would be a possible option and we are continuing dialogue to get started on subject and other options. I hope that I can indicate to the noble Lord a degree of process, although the key point is that dialogue should continue. Certainly, my honourable friend in the other place is keen for that to happen. Any changes that might need to flow from that dialogue do not need primary legislation and do not need to be dealt with in this Bill. I hope that that will satisfy the noble Lord that there is some movement on this although I suspect that it is not as robust and fast as he would like.¹⁷⁴

Following the transfer to IPSA, one of the ten trustees will be appointed by IPSA and one by the Minister for the Civil Service. The remainder will be appointed by the members of the PCPF.¹⁷⁵

7 Members of the House of Lords' pensions arrangements

Members of the House of Lords do not have access to a 'Lords' pension scheme' so to speak. They do not receive a salary for their work done in the Parliament, unless they are a minister and therefore, unless they are eligible to join the Supplementary Section of the PCPF, do not receive a pension either. Many members of the House of Lords are ex-Members of the House of Commons so will be able to draw on this, as they may also be able to do on other pensions arrangements.

¹⁷⁴ HL Deb, 27 October 2008. c1404-5

¹⁷⁵ [HC Deb, 17 October 2011, c646](#)

8 Annex – contribution rates from 1965

Period (1 April to 31 March)	Cost of accruing benefits (assessed at previous actuarial valuation)	Members' contribution rate	Excheq uer share of cost of accruin g benefits	Additional Exchequer contribution	Total Exchequer contribution
1965 to 1972	n/a	4.6%	4.6%	6.5%	11.1%
1972 to 1976	13½%	5%	8½%	7¾%	16¼%
1976 to 1979	15%	5%	10%	8½%	18½%
1979 to 1983	15%	6%	9%	7%	16%
1983 to 1985	18%	6%	12%	8%	20%
1985 to 1986	18%	7%	11%	9%	20%
1986 to 1987	22%	8%	14%	6%	20%
1987 to 1989	22%	9%	13%	6%	19%
1989 to 1992	20%	9%	11%	(6.6%)	4.4%
1992 to 1995	23%	6%	17%	(10.2%)	6.8%
1995 to 1996	23.5%	6%	17.5%	(9.9%)	7.6%
1996 to 1999	23.5%	6%	17.5%	(7.9%)	9.6%
1999 to 2002	21.6%	6%	15.6%	(8.1%)	7.5%