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Research Briefing

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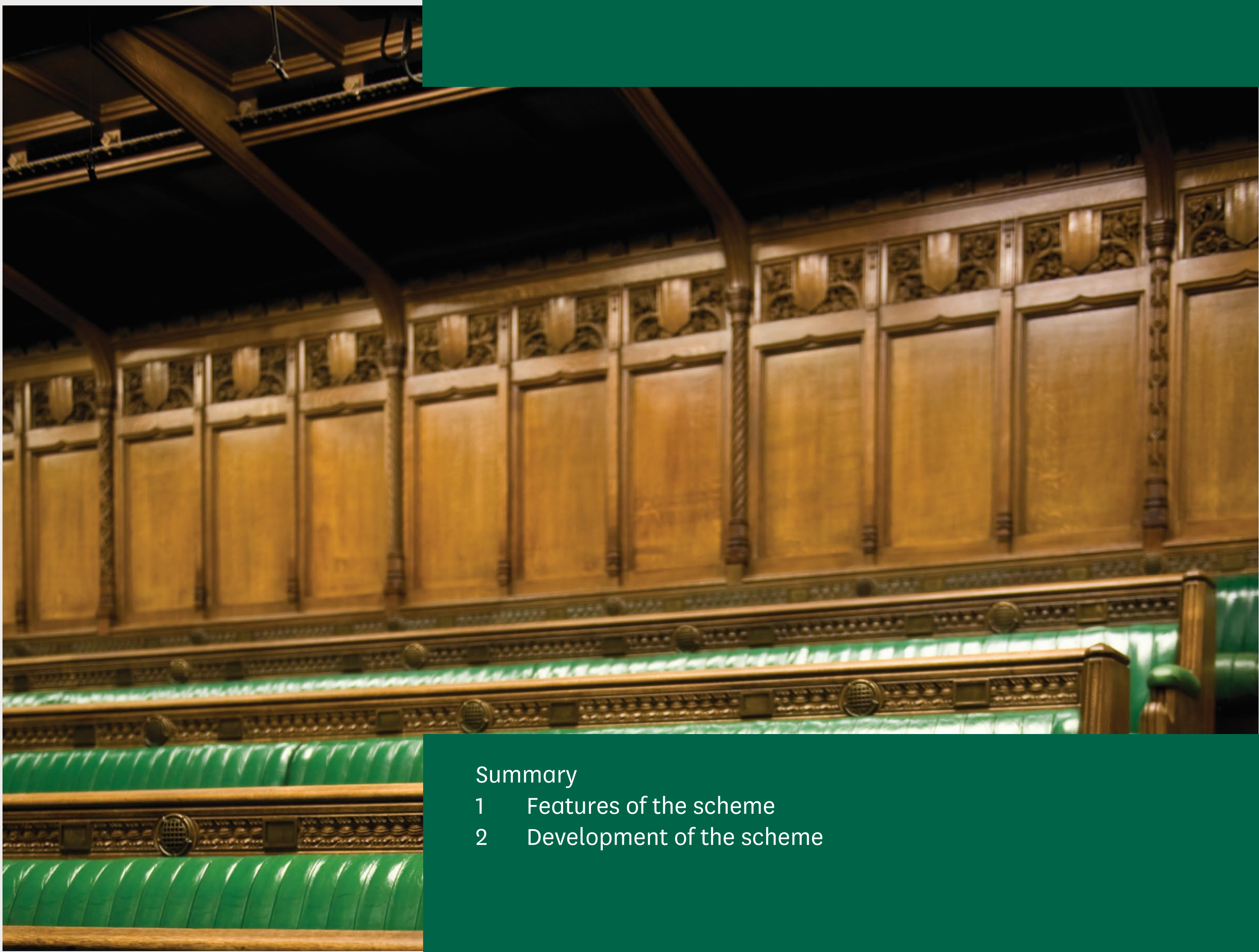
MPs' Pension Scheme



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Summary

The MPs' Pension Scheme is administered by the Independent Parliamentary Standards Authority (IPSA), which is also responsible for administering MPs' pay and business costs. It is a defined benefit scheme.

The MPs' scheme has implemented a remedy to potential age-related unfairness in response to the McCloud judgment on age discrimination in other public service pension schemes.

The Parliamentary Contributory Pension Fund

Members of Parliament build up pensions in the Parliamentary Contributory Pension Fund (PCPF). The fund is made up of two pension schemes:

- The MPs' Pension Scheme, which provides pensions to MPs and certain office holders, such as paid chairs of select committees.
- The Ministerial Pension Scheme, which provides pensions to ministers.

IPSA is responsible for oversight of the MPs' scheme and the Minister for the Civil Service (the Prime Minister) is responsible for oversight of the ministers' scheme.

Further information about the Ministerial Pension Scheme is available in the Library briefing Pensions of ministers and senior office holders.

The MPs' Pension Scheme

The MPs' Pension Scheme is a defined benefit scheme. That means it pays a promised pension based on MPs' earnings and length of service.

Unlike most of the large public service pension schemes, the MPs' Pension Scheme is funded. This means that both MPs and the Treasury pay contributions into a fund. This fund is then invested and used to pay the promised pensions. Other public service pension schemes, like the civil service pension scheme, are unfunded. This means that the pensions they provides are paid for by current member and employer contributions and taxation rather than a fund which is invested.

2015 reforms to public service pensions

The MPs' scheme was reformed in 2015 alongside the main public service pension schemes.

After the 2015 general election, pensions started being based on an MP's average salary over their career instead of their final salary. Pensions also became payable when former MPs reach their state pension age, rather than at ages 65 or 60 as before.

McCloud judgment on discrimination in public service schemes

Some older members of the MPs' Pension Scheme were given transitional protections from the 2015 reforms, such as allowing them to continue building up pensions based on their final salary. Similar protections were used in other public service pension schemes.

Following a 2018 judgment in the court of appeal referred to as McCloud, the Government was found to have discriminated against younger members of pension schemes for firefighters and judges by not offering transitional protections to them.

As a result of the McCloud judgment, the Government had to make changes to all public service pension schemes with transitional protections to remedy the discrimination which had taken place and to prevent futher disrimination.

Although the McCloud judgment did not directly affect the MPs' Pension Scheme, IPSA decided to make changes because the scheme had similar age-related transitional protections. These changes allow all members of the scheme to choose whether the benefits they accrued during the transitional protection period (April 2015 to March 2023) should be based on their final salary or their average salary.

Further information about the McCloud judgment and remedy is available in the Library briefing Public service pensions - response to McCloud.

1 Features of the scheme

1.1 Overview

MPs build up pensions in the Parliamentary Contributory Pension Fund (PCPF).[1] The statutory fund is made up of two pension schemes:

- The MPs' Pension Scheme, which provides pensions to MPs and certain office holders, such as paid chairs of Select Committees
- The Ministerial Pension Scheme, which provides pensions to Ministers.

Both schemes are defined benefit schemes. That means that they provide a promised pension in retirement, which includes a regular income and the option to exchange part of that income for a lump sum.

Unlike most of the largest public sector schemes, the scheme is funded. This means that both MPs and the Treasury make contributions into a fund. The fund is then invested and used to pay the pensions provided by the scheme.

This briefing focuses on the MPs' Pension Scheme. Further information about the Ministerial' Pension Scheme is available in the Library briefing Pensions of ministers and senior office holders.

1.2 Scheme sections

The MPs' Pension Scheme has two main sections: the career average section introduced in 2015 and the earlier final salary section.

Final salary section

The final salary section provides a pension based on the member's final salary.

Most members stopped building up pensions in this section after the 2015 general election. Instead, they started building pensions in the new career average section. However, some members were given transitional protections

1 The PCPF was set up under the Parliamentary and Other Pensions Act 1987 and the main rules were in the Parliamentary Pensions (Consolidation and Amendment) Regulations 1993 (SI 1993/3253).

and allowed to continue in the final salary section until it closed to all members on March 31, 2023.

Further detail about transitional protection is available in section 1.7 of this briefing.

Career Average Revalued Earnings (CARE) Section

After the 2015 General Election, a new career average section was introduced for MPs. Career average schemes pay a pension which is based on someone's average salary while they work for an employer. It is known as the CARE section, which stands for career average revalued earnings, because the average earnings are revalued (increased) to account for inflation.

Members elected in 2015 automatically joined this section unless they had transitional protection in the Final Salary Section (see section 1.7 for further details).

Features of the scheme

Details about both sections of the scheme are available from the Parliamentary Contributory Pension Fund library. A comparison of the main features of the sections is available in the table below:

Table 1: Comparison of the MPs' Pension Scheme sections

Final salary section	CARE section
Pension builds up at 1/40th, 1/50th, or 1/60th of final salary per year, depending on contributions.	Pension builds up at 1/51st (1.96%) of average salary per year.
Contribution rates were: • 13.75% for accrual rate of 1/40th • 9.75% for accrual rate of 1/50th • 7.75% for an accrual rate of 1/60th	Member contributions are payable at a rate of 11.09% of pay.
Full pensions (normal retirement age) at age 65 for members who are no longer an MP. Pensions for service before May 2010 can be paid from age 60 under certain conditions.	Full pensions (normal retirement age) at state pension age for members who are no longer an MP.
Up to 25% of pension as a tax-free lump sum with the rest of the pension reduced accordingly. The	Up to 25% of pension as a tax-free lump sum, with the lump sum being

size of the lump sum depends on age related factors.	twelve times the reduced pension amount.
If the member dies: • Pensions for spouses/partners at 5/8ths of the member's pension. • Lump sum of four times salary if member dies in service. • Children's pensions are also payable to dependent children.	If the member dies: • Pensions for spouses/partners at 3/8ths of the member's pension. • Lump sum of two times salary if member dies in service. • Children's pensions are also payable to dependent children.

Source: Parliamentary Contributory Pension Fund, Member Guides [accessed 28 May 2024]

1.3 Pensions for Ministers and senior office holders

The Ministerial Pension Scheme is also part of the PCPF. The scheme is separate to the MPs' Scheme, but an MP who is a Minister might be a member of both schemes.

The Minister for the Civil Service (the Prime Minister) is responsible for oversight of the Ministerial scheme.[2]

Further information about the Ministerial Pension Scheme is available in the Library briefing Pensions of ministers and senior office holders.

1.4 Governance

Powers and responsibilities of the Independent Parliamentary Standards Authority (IPSA)

The Independent Parliamentary Standards Authority (IPSA) was created by the Parliamentary Standards Act 2009. It is responsible for determining MPs' pay and pensions arrangements.[3]

It has the power to make changes to the MPs' Pension Scheme but must consult before doing so. These include determining pension benefits and aspects of administering the scheme.

2 Where the Prime Minister is referred to in this briefing it is in their role as Minister for the Civil Service.

3 IPSA, Who we are [accessed 28 May 2024]

Determining pensions benefits and contributions

IPSA decides on future pension benefits and member contribution rates after consulting various bodies (such as the Speaker, Trustees, Government Actuary's Department, and Senior Salaries Review Body). Trustee consent is needed for certain decisions, like awarding ill-health pensions.[4]

The Government Actuary's Department determines the Exchequer's contribution to the scheme through a valuation process every three years. IPSA can set a different contribution rate with trustee consent, and HM Treasury and the Prime Minister must also agree if the rate is lower than recommended.[5]

Scheme administration

IPSA can amend management and administration rules of the PCPF with trustee consent and after consulting interested parties (such as the Government Actuary's Department).[6]

Powers and responsibilities of the scheme's Trustees

The PCPF is managed by the Trustees in line with the scheme rules and relevant pensions legislation. There are ten trustees, eight are member-nominated, one is appointed by IPSA and one by the Prime Minister.[7]

The powers and responsibility of the Trustees include:

- Determining how Trustee business is conducted.
- Administering the Fund in accordance with its rules and legal requirements.
- Investment of assets and preparing a Statement of Investment Principles (after consulting IPSA and the Prime Minister).
- Settling any disputes (with the consent of IPSA and the MCS where scheme rules require).
- Arranging the appointment of Member-Nominated Trustees.[8]

Trustees should also be consulted on:

- The appointment or removal of IPSA and Prime Minister nominated trustees.

4 Constitutional Reform and Governance Act 2010, Schedule 6
5 As above
6 As above
7 Details about the trustees can be found on the UK Parliament website page, MPS' Pensions
8 Constitutional Reform and Governance Act 2010, Schedule 6

- Proposals for changes to future service benefits and member contribution rates.
- IPSA proposals to increase the Exchequer contribution rate.[9]

Officials from the House of Commons Department of Finance provide secretariat and administrative services to the Trustees. Day-to-day administration tasks (like record keeping, benefit calculations, and fund accounting) are outsourced to Buck Ltd.[10]

1.5 Members

The table below shows the number of active members (MPs building up a pension), deferred members (MPs not building up or yet receiving a pension), and pensioner members as of March 31, 2023. There are fewer active members than Parliamentary seats because some MPs have opted out and those over 75 do not build up further benefits. [11]

Table 2: Membership on 31 March 2023	
Active members	638
Deferred members	298
Pensioner members	1,118*

* This includes 311 dependants of scheme members who are receiving a pension from the scheme

Source: Parliamentary Contributory Pension Fund, Annual Report and Financial Statements, year ended 31 March 2023, 25 October 2023

1.6 Funding

Unlike most of the largest public service pension schemes, the MPs' scheme is funded. This means it invests the contributions from MPs and the Exchequer into a fund used to pay the promised pensions.

The scheme had a surplus of £26.1 million at its most recent valuation on 1 April 2020.[12] However, the value of the scheme's assets has decreased since April 1, 2017, reducing the surplus.[13]

9 Constitutional Reform and Governance Act 2010, Schedule 6
10 Parliamentary Contributory Pension Fund, Annual Report and Financial Statements, year ended 31 March 2023, 25 October 2023
11 Government Actuary's Department, PCPF valuation as at 1 April 2020 (pdf), 29 July 2021
12 As above (pdf)
13 As above (pdf)

Exchequer contributions

The Exchequer contributions to the scheme are based on periodic valuations. These contributions cover:

- The cost of accruing benefits, along with contributions from members.
- Any deficit in the fund, to be cleared over a 15-year period.[14]

1.7 McCloud judgment and the MPs' Pension Scheme

Transitional arrangements

During the 2015 pension reforms, transitional arrangements were put in place across public sector pension schemes for those closest to retirement. This included MPs who were in the scheme on April 1, 2013, and at least 51 years and 6 months old at that time.[15]

McCloud judgment

In December 2018, the Government was found to have discriminated against younger members of public service pension schemes.[16] The judgment, known as McCloud, required the Government to make changes to these schemes to remedy the discrimination.

Impact of McCloud on MPs' pensions

Although the McCloud judgment did not directly affect the MPs' Pension Scheme, IPSA decided to make changes because the scheme had similar age-related transitional protections.[17]

Remedy

To prevent future discrimination taking place, the final salary section of the scheme closed to all members on 31 March 2023, including to those with transitional protections.[18]

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14 Government Actuary's Department, PCPF valuation as at 1 April 2020 (pdf), 29 July 2021

15 Parliamentary Contributory Pension Fund, IPSA Consultation: MPs' pensions and the McCloud judgement, March 2021

16 The Lord Chancellor & Anor v McCloud & Ors [2018] EWCA CIV 2844

17 Parliamentary Contributory Pension Fund, Response to McCloud (accessed 28 May 2024)

18 As above

To remedy the discrimination which had already occurred members could choose what section they were a member of between 8 May 2015 and 31 May 2023. Affected members had an immediate choice of whether to:

- Move their benefits for this period to the Final Salary Section
- Move their benefits for this period to the CARE Section
- Make no change.[19]

Further information about the McCloud judgment and remedy is available in the House of Commons Library briefing Public service pensions - response to McCloud.

19 Parliamentary Contributory Pension Fund, Response to McCloud (accessed 28 May 2024)

2 Development of the scheme

The section below gives a brief overview of the development of the scheme. A fuller account is available in the Library briefing MPs' Pension Scheme - background which was published in January 2013.

2.1 Parliamentary and Other Pensions Act 1987

The Parliamentary Contributory Pension Fund is a statutory pension scheme, set up under the Parliamentary and Other Pensions Act 1987.[20]

2.2 Senior Salaries Review Body review 2008

In January 2008, the Senior Salaries Review Body (SSRB) recommended that any increase or decrease in pension cost pressures should be shared between the MPs and the Exchequer.[21] It also recommended that the Exchequer contribution to the cost of building up pensions should be limited to 20%. If it was likely to rise above this level, there should be a "major review of the Fund."[22] These recommendations were endorsed in principle by the House.[23]

In a Ministerial Statement on 17 June 2008, the then Leader of the House of Commons announced that the Government Actuary's Department expected the cost of accruing benefits to rise above 20% of payroll. This meant a major review was needed, as recommended by the SSRB.[24]

In July 2010, the SSRB recommended retaining a defined benefit scheme for MPs, but changing the scheme to be based on career average earnings and a normal pension age of 68.[25] The SSRB estimated that its recommendations could reduce the Exchequer contributions to between 10.5% and 15.5% of salary.[26]

20 Parliamentary and other Pensions Act 1987 (legislation.gov.uk)
21 Senior Salaries Review Body, Review of Parliamentary pay, pensions and allowances 2007 (PDF), January 2008
22 Senior Salaries Review Body, Review of Parliamentary pay, pensions and allowances 2007 (PDF), January 2008
23 HC Deb 24 January 2008 c1653-1720
24 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
25 Senior Salaries Review Body, Review of the Parliamentary Contributory Pension Fund 2010, July 2010
26 Senior Salaries Review Body, Review of the Parliamentary Contributory Pension Fund 2010, July 2010

The Government stated that decisions about the future of the MPs' Pension Scheme should be informed by the recommendations of the Independent Public Service Pensions Commission, which was reviewing public service pensions more broadly.[27]

2.3 Transfer to the Independent Parliamentary Standards Authority (IPSA) in 2011

IPSA was given power under the Constitutional Reform and Government Act 2010 to ensure that decisions on MPs' salaries and pensions were taken separately from the House of Commons.[28]

In 2011, responsibility for the MPs' scheme was passed to IPSA.[29] At the same time responsibility for the Ministerial scheme passed to the Prime Minister. Although the features of the MPs' scheme remained the same, IPSA was given the power to amend it, providing it consulted before doing so.[30]

2.4 Review of public service pensions

Independent Public Service Pensions Commission

Terms of reference

In June 2010, the Coalition Government established an Independent Public Service Pensions Commission, to review of public service pension provision and to make recommendations that were "sustainable and affordable in the long term, fair to both the public service workforce and the taxpayer" while protecting accrued rights.[31]

Recommendations

The Commission recommended replacing the existing schemes with new ones, in March 2011.[32] The schemes existing at the time provided pensions based on final salaries. The Commission recommended that pensions should be based on career average earnings in the schemes.[33] It argued this was "the fairest way of spreading the effect of change across the generations" and "the quickest way of ending the in-built bias against those public service

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27 HC Deb, 26 July 2010, c70-71WS
28 Constitutional Reform and Governance Act 2010, Schedule 6
29 As above
30 As above
31 HM Treasury, Independent Public Service Pensions Commission: terms of reference 2010, [captured 7 July 2010]
32 HM Treasury, Independent Public Service Pensions Commission: final report, 10 March 2011, p4
33 HM Treasury, Independent Public Service Pensions Commission: final report, 10 March 2011, p10

employees whose pay stays low over their career, inherent in final salary schemes."[34]

The Commission also recommended linking the age at which members could receive their full pension to their state pension age – an increase in age for many members.[35] It said that the schemes for the armed forces, police and firefighters should be excluded from increases to state pension age and have a normal minimum pension age of 60.[36]

Government response and Public Service Pensions Act 2013

The Government accepted the Commission's recommendations as the basis for negotiations with trade unions.[37] It announced agreements for reforming most public service schemes by October 2012.[38] The Government enabled new schemes to be introduced for future service from 2015 (2014 for local government) through the Public Service Pensions Act 2013.[39]

Impact on MPs' pensions

On 17 October 2011, the House of Commons agreed to a motion inviting IPSA to introduce a new scheme for MPs by 2015, informed by the Commission's findings and impact on other public service pension schemes.[40]

Further details are covered in section 2.6 of this briefing below.

2.5 Contribution rate increases

The Independent Public Service Pensions Commission's interim report in October 2010 concluded that increasing member contributions was the most effective way to make short-term savings in public service pension expenditure. The Government planned to implement progressive changes to employee contributions across the public service, excluding the armed forces,

34 As above, p4
35 As above, p13
36 The normal pension age is the age at which members still in active service can generally draw an unreduced pension. Those who left service before reaching normal pension age can draw their pension at deferred pension age, which for members of the schemes for the uniformed services is linked to the State Pension age. HM Treasury, Independent Public Service Pensions Commission: final report, 10 March 2011, p14.
37 HM Treasury, Public Service Pensions: good pensions that last, November 2011
38 HM Treasury, Discussions concluded on public service pension details, 9 March 2012
39 Public Service Pensions Act 2013
40 HC Deb, 17 October 2011, c629; The debate on this motion is discussed in Library Note SN 1844 MPs' Pension Scheme – background (January 2013)

by an average equivalent to 3.2 percentage points by 2014/15, phased in from April 2012.[41]

The House of Commons agreed to a motion on 17 October 2011 which invited 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.[42]

On 8 February 2012, IPSA launched a public consultation on its recommendation to increase MPs' pension contributions by 1.85%.[43] At the time contribution rates were between 5.9% and 11.9%. IPSA had decided against delaying the increase until a fundamental review of the scheme had been conducted.[44]

The increase was opposed by the scheme Trustees, who had said IPSA should concentrate on its "root and branch" review (section 2.6 of this briefing) and consider the appropriate contribution rate as part of that.[45] However, in March 2012, IPSA said it had taken the view that it was "essential for public confidence in MPs, in Parliament and in the principles of independent regulation" that MPs were not seen to be shielded from the increases applied to other public sector workers.[46]

The member contribution rate in the CARE Section introduced in May 2015 is 11.09% of pensionable salary.[47]

2.6 IPSA review and reform of the scheme 2012-2015

Initial consultation – October 2012

In January 2012, IPSA announced it was conducting a thorough review of pay and pensions.[48] In its consultation document, published in October 2012, it argued that reform was needed because the costs of the scheme had increased by nearly 50% since 1999.[49]

The guiding principles for IPSA's review of pensions were that:

- The scheme should seek to be more equitable between MPs of different ages, backgrounds and income levels.

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41 HM Treasury, Spending Review – policy costings, October 2010; HC Deb, 24 May 2011, c589W
42 HC Deb, 17 October 2011, c629
43 IPSA, MPs Pensions – Consultation (PDF), January 2012
44 As above (PDF)
45 IPSA, MPs' Pensions Report on the Consultation, March 2012
46 As above
47 Parliamentary Contributory Pension Fund, MPs CARE member guide (accessed 28 May 2024)
48 IPSA, MPs Pensions – Consultation (PDF), January 2012
49 IPSA, Reviewing MPs' Pay and Pensions, A consultation (PDF), October 2012

- The costs and risks of the scheme must have an appropriate and fair balance between the member and the taxpayer.
- The scheme must be sustainable and affordable in the short and long term – not requiring significant amendment for at least 25 years.
- Any reforms to the MPs' Pension Scheme should protect accrued rights.[50]

IPSA proposed a scheme cost of 24.5% of pensionable payroll as a tool for comparison (compared to a cost of 32.4% for the existing scheme).[51] Within this cost, it proposed a "reference scheme" with the following features broadly the same as the reference scheme proposed by HM Treasury in November 2011 for reform of the NHS, teachers' and civil service schemes.[52]

In January 2013 it published provided an analysis of the consultation responses and proposed a framework for the further work needed to consult on proposals for a new remuneration settlement for MPs.[53]

Consultation on proposals for reform – July 2013

On 11 July 2013, IPSA published details of its proposed changes to MPs pay and pensions. It said the current scheme was "unaffordable over the long term" and that its proposals would put MPs' pensions on a sustainable footing for the future.[54] It stressed that the proposals should be seen as part of a package.[55]

IPSA proposed the introduction of a new pension scheme from May 2015, providing pension benefits based on Career Average Revalued Earnings (CARE) rather than final salary.[56]

IPSA estimated that this scheme would cost 22.9% of payroll, compared to 32.4% previously. It had decided that the higher cost ceiling (24.5%) suggested in October was too high. It had reduced the cost by bringing the ancillary benefits down to a level comparable with those that would be available in the new scheme being proposed for Ministers from May 2015.[57]

A cost of 22.9% is close to the cost ceilings proposed by the Government for its reforms of the main public service pension schemes: 21.9% for the NHS

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[50] IPSA, Reviewing MPs' Pay and Pensions – A First Report (PDF), January 2013, p17
[51] As above (PDF), para 186
[52] HM Treasury, Public Service Pensions: good pensions that last, CM 8214, Box 3A.
[53] IPSA, Reviewing MPs' Pay and Pensions – A First Report (PDF), January 2013, p17; IPSA, MPs Pay and Pensions – A new package (PDF), July 2013, chapter 1
[54] IPSA, IPSA launches consultation on MPs' pay and pensions, 11 July 2013
[55] IPSA, MPs Pay and Pensions – A new package (PDF), July 2013, p3
[56] As above (PDF), p16
[57] As above (PDF), para 104 and 110-1

scheme; 22.5% for the civil service scheme; 21.7% for the teachers' scheme and 20.4% for the local government scheme.[58]

Final Report – December 2013

In December 2013, IPSA set out a package of reforms including:

- a one-off uplift in salary, which would then be linked to average earnings
- reforms to the pension scheme in line with those in other parts of the public service
- replacing 'resettlement payments' with more modest 'out of office' payments
- a 'tighter regime of business costs and expenses'.

It said that taken together, the package of reform was cost neutral.[59] The pension reforms would be implemented in time for accrual in the new Scheme to begin following the next general election.[60]

The package of reforms followed the broad shape of that recommended in July.[61] IPSA did not agree to a request from the trustees that:

- The accrual rate should be increased from 51st to 50ths;
- MPs should retain the current flexibility over the contribution and accrual rate; and
- MPs should be able to purchase additional ancillary benefits on an individual basis.[62]

It said that "the pensions provided for MPs should reflect as far as possible the experience of other public servants".[63]

58 HM Treasury, Public Service Pensions: good pensions that last (PDF), CM 8214, November 2011, Table 3.A
59 IPSA, IPSA publishes final report on MPs' pay and pensions, 12 December 2012
60 IPSA, MPs' Pay and Pensions Final Report (PDF), December 2013, para 73
61 As above (PDF), p66
62 As above (PDF), para 70
63 As above (PDF)

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