

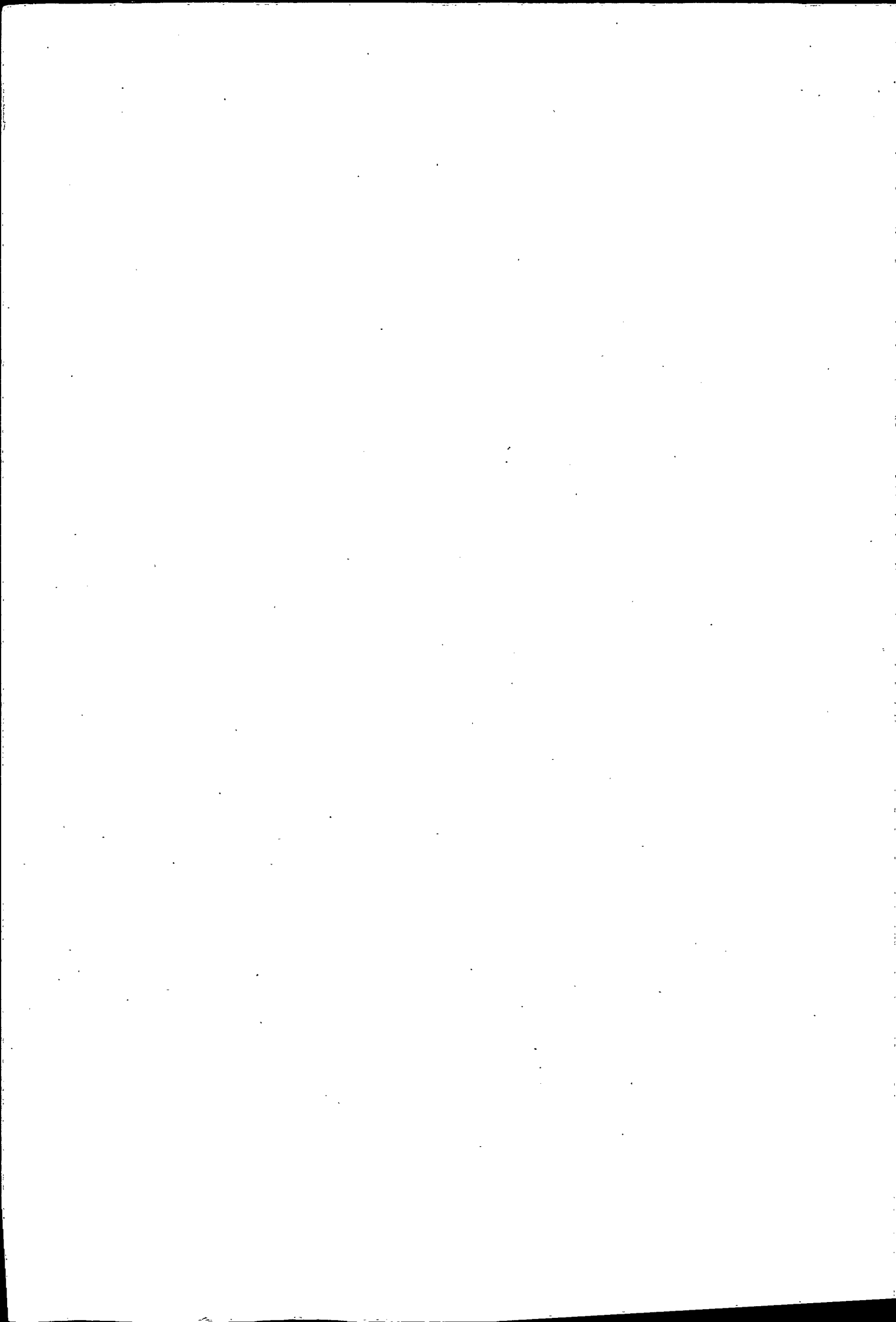


Review Body on
Top Salaries

REPORT No. 26

**Review of Aspects of
the Parliamentary
Pension Scheme
and Other Matters**

Chairman: The Rt. Hon. Lord Plowden, GBE, KCB





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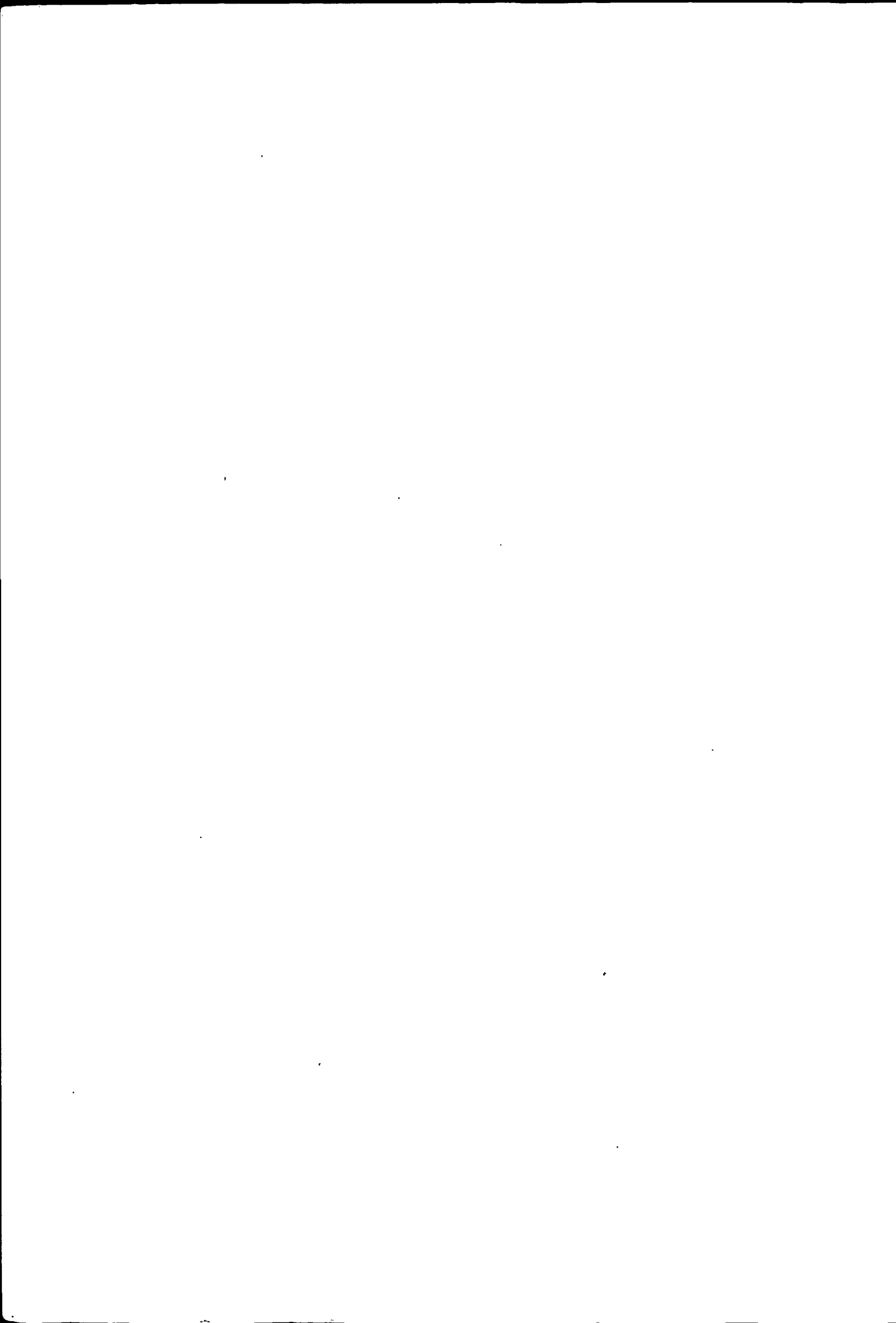
Chairman: The Rt. Hon. Lord Plowden, GBE, KCB

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Review Body on Top Salaries

On 24 July 1987 the Review Body on Top Salaries was invited by the Lord Privy Seal¹ to undertake a review of aspects of the parliamentary pension scheme and other matters including resettlement grants for Members of the House of Commons who retire at a general election, the pensions of the Prime Minister, Mr Speaker and the Lord Chancellor and ministerial severance pay.

The members of the Review Body² are:

Lord Plowden, GBE, KCB, *Chairman*
Sir Terence Beckett, KBE³
Derek Birkin, TD
Louise Botting³
Lord Chorley
Sir Robin Ibbs
Sir Peter Matthews, AO⁴
Jeremy Pope, OBE
Sir Thomas Skyrme, KCVO, CB, CBE, TD

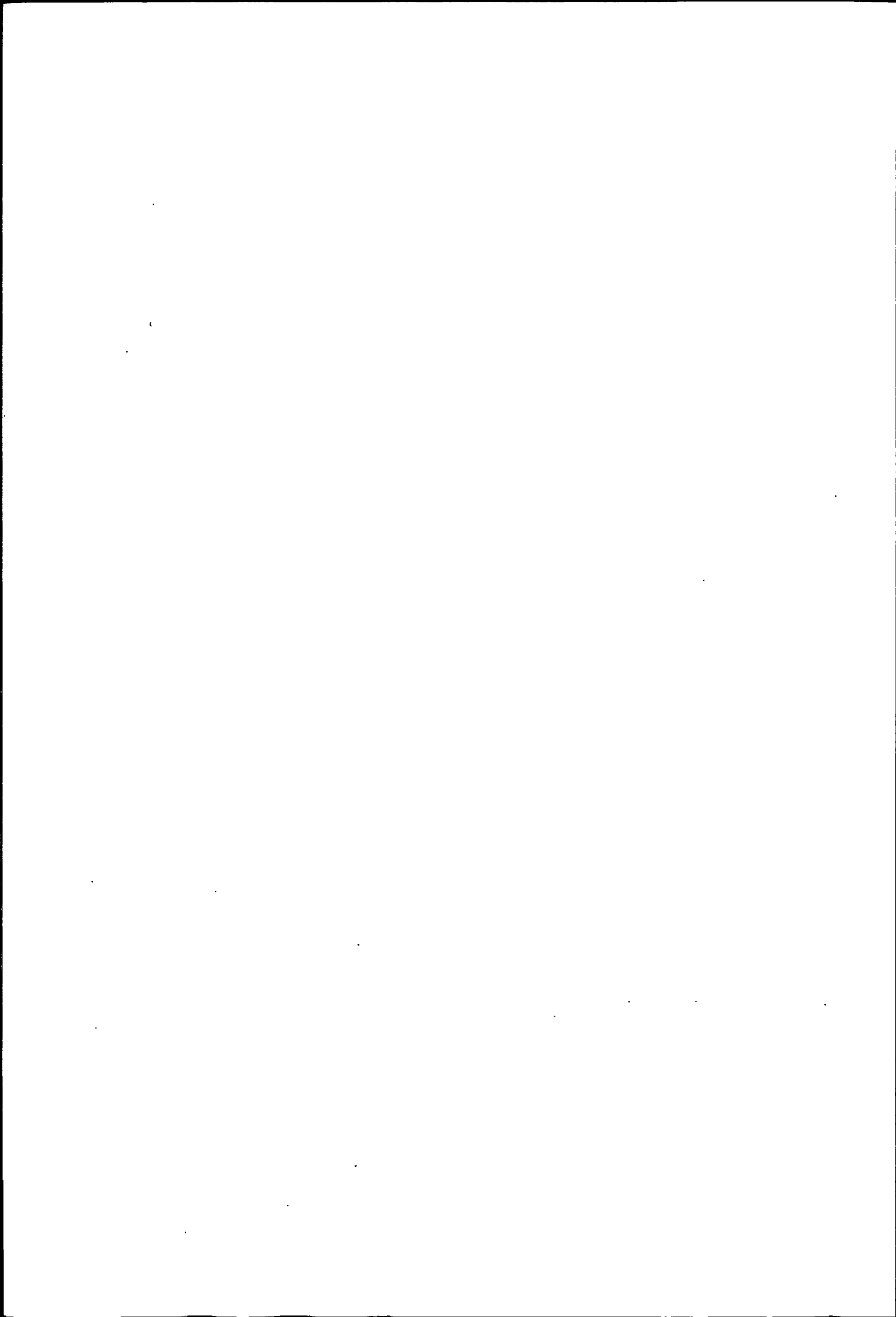
The Secretariat is provided by the Office of Manpower Economics.

¹ The Rt. Hon. John Wakeham MP, who became Lord President of the Council in January 1988 but retained responsibility for the matters covered by this review.

² Andrew Morritt, QC resigned from the Review Body during the course of the review.

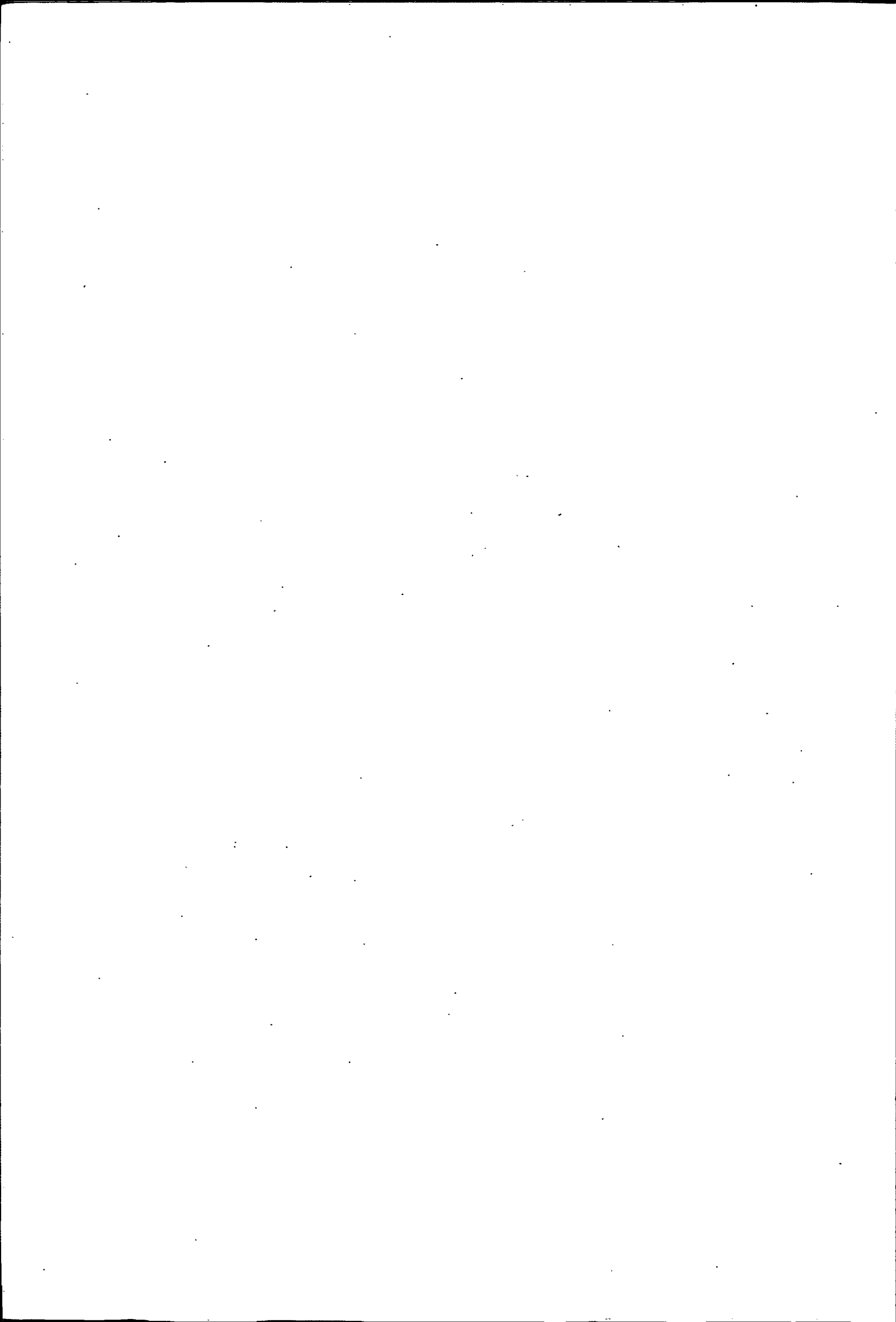
³ Louise Botting and Sir Terence Beckett were appointed to the Review Body by the Prime Minister in June and July 1987 respectively.

⁴ Sir Peter Matthews is also Chairman of the Review Body on Armed Forces Pay.



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Review of Aspects of the Parliamentary Pension Scheme and Other Matters

Introduction

Terms of reference

1. The terms of reference for this review were contained in a letter dated 24 July 1987 from the Lord Privy Seal. He placed a copy in the Library of the House of Commons and we reproduce his letter at Appendix A. We were asked to consider:

- (i) eligibility for resettlement grants for MPs who leave the House at a general election;
- (ii) pension entitlement for MPs retiring early at age 55 or more;
- (iii) whether any changes recommended under (i) and (ii) should be made retrospective for those who retired at the last General Election;
- (iv) whether service as a Member of the European Parliament should be allowed to count towards the qualifying period for an early pension for MPs;
- (v) pension contributions made by MPs;
- (vi) pension arrangements for the Prime Minister, Mr Speaker and the Lord Chancellor;
- (vii) whether Ministers and other paid office holders not in the House of Lords should receive, on relinquishing ministerial office, severance payments on broadly the same terms as are paid to Ministers and other paid office holders in the Lords.

2. We informed the Lord Privy Seal that as far as possible we would restrict our review to the questions to which he referred in his letter, rather than look at the parliamentary pension scheme as a whole. This was in view particularly of the fact that we had looked only recently at the scheme in some detail for Report No. 20 which was published in May 1983 (our previous reports on parliamentary matters are listed at Appendix B).

3. We also agreed with the Lord Privy Seal that we would report early in 1988 rather than by the end of 1987 as originally requested, and thus allow extra time to study the complex and sensitive issues involved. We made it clear that this would not affect our approach to the question we had been asked to consider of whether any recommended changes should be retrospective.

Our inquiries

4. We invited written and oral evidence from the Government, the Chairman of the 1922 Committee, the Chairman of the Parliamentary Labour Party, the leaders of the other main opposition parties and the Trustees of the Parliamentary Contributory Pension Fund. We also received evidence from some individual MPs and former MPs and from the Managers of the European Parliament (UK Representatives) Pension Scheme. In addition we sought the professional advice of the Government Actuary and R Watson and Sons, consulting actuaries, both of whom assisted us in our previous review of the parliamentary pension scheme in 1983. A list of those who gave evidence and professional advice is at Appendix C. We are grateful for this help which enabled us to consider different points of view and approaches on the issues before us.

Parliamentary pension scheme and resettlement grants

Background

5. A pension scheme for MPs was first introduced with effect from October 1964. It has been considerably improved since then. The improvements required primary legislation and in 1987 the Parliamentary and Other Pensions Act was passed to enable changes to be made to the scheme by regulations. A summary of the present scheme, with reference to the legislation involved, is at Appendix D.

6. The 1987 Act enabled detailed changes to be made to the scheme which will allow individual MPs to make alternative personal pension arrangements if they so wish. Some MPs sought to amend the legislation during its passage through the House. They were seeking, prior to the General Election which was expected shortly, to improve the early retirement provisions of the scheme for MPs aged 55 and over; and to extend to MPs aged 65 or over an entitlement to a lump sum payment like the resettlement grants paid to MPs aged under 65 who leave the House at a general election. The changes proposed would have benefited a number of MPs who were due to retire from the House at the General Election which followed in June 1987. In the event, the amendments were not pressed; but the then Lord Privy Seal acknowledged that there were anomalies in the existing arrangements and he proposed that these should be referred to the Review Body. He agreed to draw our attention to the question of whether any improvements which might be recommended should be made retrospective to the General Election to benefit those MPs who retired at that time.

Early retirement arrangements

7. Under current arrangements, MPs who leave the House before the age of 65 cease to accrue pension under the pension scheme and become entitled to payment of the accrued pension from age 65. For MPs who wish to take an immediate pension before the age of 65, other than on ill-health grounds for which separate arrangements exist, early retirement arrangements were first introduced on our recommendation in 1972. These have been improved on a number of occasions. There are currently two kinds of arrangements, one arising from our recommendations in Report No. 20 in 1983, and the other from the more favourable terms which were subsequently agreed by the House.

8. The basic early retirement arrangements provide that a pension may be put into payment earlier than age 65, but not before age 50, for a former MP who has left the House at any time before the age of 65. In this case the pension paid is less than the accrued pension payable from age 65 to reflect the longer period over which it is expected to be paid. The abatement is determined on an actuarial basis which should ensure that the capital value of the early, immediate, pension is comparable to the capital value of the alternative pension payable from age 65. We have not been asked to make recommendations about these arrangements.

9. These basic early retirement arrangements may be modified for MPs who leave at a general election if certain conditions are satisfied. If an MP leaves the House at this time and is aged at least 57 and has served as an MP for more than 16 years, then he or she may apply within six months of the dissolution for an immediate pension on more favourable terms.

10. When these conditions are satisfied, abatements of pension become progressively less than a full actuarial abatement as age and service increase. The abatements are shown in the table at Appendix E. An MP who is aged at least 60 and has 20 years' or more service, may be paid the accrued pension in full.

11. It is this improved level of early retirement pension which has caused concern about what are felt to be anomalies. Sharp differences of treatment can occur in the level of the pension arising from small differences in age and length of service.

A particular cause of concern is that whilst an MP aged 60 with 20 years' service who retires at a general election can receive an immediate full accrued pension, an immediate pension for an MP aged one or two years younger is reduced considerably. For example, the pension for an MP retiring at a general election aged 58 or 59 with 20 or more years' service is reduced by about 29 per cent and 15 per cent respectively. MPs in this position, with no control over the timing of the general election at which they retire, must either accept an immediate pension on this basis or wait until age 65 for a full accrued pension.

12. The Lord Privy Seal asked us to consider whether there is a case for those retiring at age 55 or more with 20 years' service to receive a full pension at age 60; and if so whether fresh anomalies could be avoided with some form of tapering. We concluded in principle that there was a case for improved terms. We asked the Government Actuary and R Watson and Sons for their views on how this could be achieved whilst avoiding further anomalies and they subsequently submitted proposals to us.

13. A proposal by the Government Actuary, derived from the Local Government Superannuation Scheme, appeared to us to be the most suitable for improving the existing arrangements. The proposal is based on two concepts. First, a full accrued pension would be payable from a 'pensionable age' of between 60 and 65, depending on length of service at the date of leaving the House. Second, an abatement, which the new concept of a flexible pensionable age would allow to be calculated on a broadly actuarial basis, would be made where the pension was brought into payment before the pensionable age. The abatement to the pension would depend only on how much earlier than the pensionable age it was paid.

14. In practice this would work as follows. On leaving the House at a dissolution an MP would be entitled to a full accrued pension payable from the following pensionable age:

<i>Number of years' service</i>	<i>Pensionable age</i>
20 or more	60
19	61
18	62
17	63
16	64
15 or less	65

Thus MPs who at the time of leaving the House at a dissolution had reached their pensionable age could receive an immediate full accrued pension. Those who had not reached their pensionable age would have a choice. Either they could wait until they reached their pensionable age and then apply for their full accrued pension to be brought into payment; or they could take an earlier pension which for men would be subject to the following actuarial abatement (somewhat lower actuarial abatements would apply for women):

<i>Number of years by which pension is paid earlier than pensionable age</i>	<i>Percentage abatement</i>
1	7
2	14
3	20
4	26
5	31
6	36
7	40
8	44
9	47
10	50
11	53
12	56
13	58
14	60
15	62

The effect of this arrangement on pension entitlement is illustrated more fully in the table at Appendix F.

15. The proposal has a number of advantages. It is simpler than the existing arrangements. It removes the inflexibility referred to in paragraph 11 which Mr Wakeham asked us to consider. It generally reduces sharp differences in pension levels arising from small differences in age and length of service. It provides MPs who retire at a general election with a more flexible choice over when to opt to put their pension into payment. We have also established that compared with the current arrangements, there would be no circumstances in which an MP would be materially worse off.

16. The Government Actuary has calculated that to fund these new arrangements the addition to the total standard contribution (ie that shared between MPs and the Exchequer and currently equivalent to 22 per cent of MPs' salaries) would be equivalent to 0.35 per cent of MPs' salaries. This would be sufficient to cover the extra costs in respect of service after the date of the change. The additional capital cost in respect of past service is calculated to be £0.7m. After taking account of the total additional cost, we believe that more flexible early retirement arrangements on the lines we have described are justified in principle for MPs in view of the special circumstances of parliamentary life and good practice in pension schemes generally.

17. **Recommendation.** We recommend that revised early retirement arrangements should be adopted as described in paragraphs 13 and 14. If accepted, we suggest that the Government Actuary should be asked to assist with the detailed implementation of these arrangements.

18. If the above recommendation is accepted, there may no longer be a case for two kinds of early retirement arrangements. At present, as we described in paragraphs 8 and 9, there is an arrangement for MPs who retire at a general election; we have recommended at paragraph 17 that this should be improved. There is also a less favourable arrangement for those who retire at any other time.

19. A single arrangement to cover all the circumstances of early retirement would clearly be simpler than two. When MPs retire between general elections it seems likely that they will often have what the House might be expected to regard as good reasons for doing so. Moreover, as so few MPs do retire between elections the cost would be negligible. On the other hand, it might be thought unacceptable to assist those who could be deemed to have left the House voluntarily.

20. In our view, there is some advantage in a single arrangement. However, we were not asked to consider this question, nor was it raised with us in the course of evidence, and we are therefore reluctant to make a positive recommendation. We suggest that the House consider further whether there would continue to be a need for two kinds of early retirement arrangements, one applying to MPs who retire at times other than a dissolution and another applying to MPs who retire at a dissolution.

Resettlement grants

21. The resettlement grant was originally known as severance pay. It is not part of the parliamentary pension scheme and is paid tax free from the Consolidated Fund. It was introduced in 1971 following a recommendation by us (Report No. 1). It was paid to an MP who was defeated at a general election or whose former constituency disappeared and who did not seek re-election. Initially the grant was three months' salary. There was no age limit. In 1980 we recommended that basic payments should remain at three months' salary but should be increased for those MPs who were more than 50 years of age and had served in the House for more than 10 years. In the event, the House agreed that these rates should be approximately doubled. Rates were established related to the MP's age and length of service, rising from 6 months' pay for MPs aged under 50 to 12 months' pay for MPs aged 55 to 64 with 15 or more years' service. MPs aged 65 and over continued to qualify but at a lower rate than some of those in the younger age brackets. On our recommendation in 1983 eligibility was extended to any MP who did not stand in a general election for whatever reason provided he had not attained the age of 65 before the dissolution. We thought it impracticable to devise criteria which would clearly distinguish between those who could be deemed to have left Parliament voluntarily and those who could not. The current rates are shown at Appendix G.

22. We also recommended in 1983 that the term 'resettlement grant' be adopted. This was to make clear the aim of providing temporary support for those MPs who lose their seats before they have reached the normal threshold for retirement and need to re-establish themselves in alternative employment'.

23. The Lord Privy Seal has asked us to consider whether the arrangements for resettlement grants should continue; or whether those over 65 should also be eligible for resettlement grants; or whether resettlement grants should be limited to those under 60. He pointed out that an MP who is over 60 and has served as an MP for not less than 20 years can receive a full accrued pension, part of which can be commuted into a tax free lump sum up to the Inland Revenue limit of one and a half times final salary.

24. We are not persuaded that there is a case for making a change to the upper age limit for resettlement grants. We continue to regard it as inappropriate for MPs aged 65 or over, the age from which they qualify for an immediate and unabated pension regardless of their years of service as an MP, and also the age from which the state retirement pension is payable, to qualify for a grant. Payment of the grant beyond that age would not be consistent with its purpose as described at paragraph 22 above, which remains unchanged.

25. We have also considered more generally the relationship between resettlement grants and early retirement arrangements, including the possibility that grants should be limited to those aged under 60. We have concluded however that no change should be made in the present arrangements. The circumstances of individual MPs vary greatly, but many who leave the House between the ages of 60 and 64 will in different degrees need to re-establish themselves in alternative employment. It would not be practicable in our view to devise criteria which distinguished between the degrees of need, or distinguished those former MPs who might voluntarily decide not to look for alternative employment. Nor do we believe that account should be taken of any lump sum payment made under the early retirement arrangements for which MPs may be eligible. To establish a link would imply that the resettlement grant should decrease as pension entitlements increased. Such a grant would therefore be lower as service increased and there was a corresponding increase in pension entitlement; but this would be contrary to normal expectations about payments provided as compensation for loss of earnings and would penalise MPs who had given the longest service to the House.

26. *Recommendation.* We recommend that the existing arrangements for resettlement grants should remain unchanged.

Retrospective change

27. The Lord Privy Seal asked us to consider whether any recommended changes, in respect of early retirement and resettlement grants, should be made retrospective for those MPs who left the House at the last General Election. We have recommended improved early retirement arrangements and we have therefore considered whether these should be retrospective.

28. We are aware that the House decided that improved early retirement arrangements introduced in 1984 should be applied to MPs who left the House at the 1983 General Election; these MPs enjoyed improvements in their pensions from the date the new pensions were introduced, but payment of the improved pensions was not backdated. We also recognise, on the advice of the Government Actuary, that there would be a relatively small cost in making retrospective the improvement in the early retirement arrangements which we have recommended: the capital cost given in paragraph 16 would be increased from £0.7m to £0.8m. Nevertheless, we believe that retrospection is undesirable in principle, and we are not persuaded that there are circumstances in this case which would merit an exception.

29. *Recommendation.* We recommend that the revised early retirement arrangements recommended at paragraph 17 should not be made retrospective.

Service as an MEP 30. In his letter the Lord Privy Seal asked us to consider whether service as a Member of the European Parliament should count towards the qualifying period for early retirement. He drew our attention to the fact that this issue had been raised during the passage of the Parliamentary Pensions etc Act, 1984.

31. The pension schemes for MPs and MEPs are deliberately similar and accrued pension rights can be transferred between the two schemes. For an MP who had previously served as an MEP and left the House other than under the favourable early retirement arrangements there is no disadvantage. But transferred service is not allowed to count towards the qualifying period for early retirement. It can be argued that the occupations of MP and MEP are so closely allied, and so different in character from service in other occupations, that separate periods of service as an MEP should be aggregated with those as an MP for the purpose of early retirement. We are also advised by the Government Actuary that the cost of doing so would be small; it would be unlikely to add more than 0.1 per cent to the total standard contribution. However, we consider that the essential purpose of the early retirement arrangements for MPs should be to assist those who have devoted themselves to a long career in the House of Commons, and that an extension of the arrangements would not be appropriate.

32. *Recommendation.* We recommend that periods of service as an MP and an MEP should not be allowed to be aggregated for the purposes of the qualifying period for early retirement.

Other improvements 33. As we explain in paragraph 2, we informed the Lord Privy Seal at the outset that as far as possible we would restrict our review to the particular questions to which he referred in his letter, rather than look at the pension scheme as a whole. However, other suggestions for improvements were made by those giving evidence to us. We considered these and sought professional advice on them. We concluded that one change should be made, an improvement in the death-in-service gratuity. At present if an MP dies in service a gratuity will normally be payable to his or her spouse equal to the greater of the MP's salary for one year or total unrefunded contributions accumulated with interest from the dates of payment. We consider that the payment of one year's salary in these circumstances should be improved to two years' salary in line with what has been agreed for the civil service and with common practice in the public sector. The cost will add 0.4 per cent to the total standard contribution and there would be an additional capital cost of £350,000 in respect of current MPs.

34. *Recommendation.* We recommend that the death-in-service gratuity should be two years' salary.

MPs' contributions 35. The Lord Privy Seal asked us to consider the fixed nature and level of MPs' contributions over which some concern was expressed during the passage of the Parliamentary and Other Pensions Act, 1987. Several of those giving evidence to us have expressed the view that the current contribution of 9 per cent of salary paid by MPs is too high.

36. We recommended in 1983 (Report No. 20) that the contribution rate should be increased from 6 to 8 per cent. However, when this was debated in the House it was resolved that MPs should contribute 9 per cent. We understand that in reaching this decision the House took account of improvements to MPs' pay and allowances which were considered at the same time. Subsequently, the Government agreed that as the pay increase agreed at the time for MPs was to be staged over a number of years, the increase in the pension contribution should also be staged. Appropriate provisions were included in the Parliamentary Pensions etc Act, 1984. The rate became 7 per cent from 1 January 1985, 8 per cent from 1 January 1986 and 9 per cent from 1 January 1987. Correspondingly the Exchequer's contribution to make up the total standard contribution required of 22 per cent has fallen from 16 per cent to 13 per cent.

37. There is no basis on which we can challenge the decision by the House to set the contribution rate for MPs at 9 per cent. This was essentially a matter for judgment. We have considered however whether there have been any changes in the funding of the scheme since 1983 which might provide grounds for a change.

38. The Government Actuary is currently undertaking a revaluation, as at 1 April 1987, of the Parliamentary Contributory Pension Fund. This is not due to be completed until later this year but he has made a revised estimate of the total standard contribution in the light of the current outlook for investment earnings and inflation in the long term. He has allowed for the extra costs which the scheme will have to bear from April 1988 as a result of the changes resulting from the Social Security Act, 1986. Taking account of these factors he estimates that the total standard contribution could be reduced from 22 to 20 per cent of salary.

39. The Government Actuary has told us, however, that it is not common practice as a result of such a revaluation to adjust the members' contribution to an occupational pension scheme. Moreover, the Exchequer is currently making an additional contribution equivalent to 6 per cent of MPs' salaries over its normal contribution of 13 per cent. The changes we have recommended will also add 0.75 per cent to the total standard contribution. We have therefore come to the view that there are no good grounds to reduce the level of the contribution made by MPs.

40. **Recommendation.** We recommend that, subject to implementation of the recommendations we have made for improvements to the parliamentary pension scheme, MPs should continue to make a pension contribution of 9 per cent of salary.

Supplementary pension scheme

41. On appointment as a Minister or other paid office holder in the House of Commons, MPs continue to participate in the parliamentary pension scheme. They are also eligible to opt to pay additional contributions towards a supplementary pension entitlement in respect of their service as a Minister or paid office holder; this entitles them to a pension in respect of their additional salary over and above the pensionable salary of a backbench MP. Ministers and paid office holders in the House of Lords are also able to acquire entitlement to a pension related to their earnings in office by voluntary participation. It is our intention that the changes that we have recommended in the parliamentary pension scheme should apply also to the supplementary pension scheme and we recommend accordingly. The costs quoted earlier have been calculated on this basis.

42. **Recommendation.** We recommend that the changes we have recommended in the parliamentary pension scheme should apply also to the supplementary scheme for Ministers and other paid office holders.

Other matters

Pension arrangements for the Prime Minister, Mr Speaker and the Lord Chancellor

43. Statutory pensions are attached to the offices of the Prime Minister, Mr Speaker, and the Lord Chancellor. They have a long tradition and date from 1937 for the Prime Minister, and from 1832 for Mr Speaker and for the Lord Chancellor. They are not related to length of service. When we last looked at this matter in 1971 we recommended appropriate amounts. We also recommended that consideration should be given in the future to expressing these amounts as a proportion of salary, so removing the need to reconsider them on each occasion that the salary is revised. These recommendations were accepted. The holder of each of these three offices is currently entitled to a pension expressed as a fixed fraction of the final salary entitlement for the office in question. The parliamentary salaries payable to the Prime Minister and Mr Speaker are not included in the calculation.

44. The current salary entitlements, fixed fractions, and pension entitlements are as follows:

<i>Office</i>	<i>Salary entitlement</i> £	<i>Fraction</i>	<i>Pension entitlement</i> £
Prime Minister	45,787	15/40	17,170
Mr Speaker	35,887	20/40	17,944
Lord Chancellor	83,000	17/40	35,275

45. Pensions in payment of retired office holders are increased annually in line with increases in the Retail Prices Index, subject, however, to a capping restriction which ensures that the pension concerned does not exceed the pension entitlement of the current office holder.

46. The Lord Privy Seal invited us to review these arrangements. In particular he asked us to consider whether the link between salaries and pensions remains appropriate; whether, if so, pensions should be based on the current fractions of salary or on some larger fractions; whether, in the case of the Prime Minister and Mr Speaker, the fraction should be applied to the total salary including the parliamentary element; whether the Prime Minister and Mr Speaker might be permitted to contribute, as other Ministers and paid office holders can, to the parliamentary pension scheme; if so, whether any such contributions could be made in respect of past service; and whether the capping restrictions on pensions in payment continue to be justified.

47. We have considered these issues and have concluded that the practice of linking the pension entitlements of these great offices to final salary, irrespective of length of service, continues to be fully justified. However, we take the view that a number of detailed changes should be made to the present arrangements.

48. We see no continuing grounds for basing these pensions on different fractions of final salary and we consider that current and future holders of all three offices should be entitled to pensions of one half of their final salaries, which is Mr Speaker's existing entitlement. This would result in an increase in the current pension entitlement of the Prime Minister from £17,170 to £22,894, an increase of 33.3 per cent; and an increase for the Lord Chancellor from £35,275 to £41,500, an increase of 17.6 per cent. We believe these changes should be regarded as corrections of anomalies. The pension entitlement should continue not to be

affected if an office holder draws a lower salary than that to which he or she is entitled; and should also continue to be linked solely to the final salary of the office in question. It would not be appropriate in our view for the calculation to include the parliamentary salaries of the Prime Minister and Mr Speaker.

49. We considered in 1971 that holders of these two offices, who are in receipt of parliamentary salaries, should be able to participate in the pension scheme for MPs. We continue to hold this view, since we see no sufficient reason why they should be at a disadvantage compared with other Ministers and paid office holders, and recommend accordingly. However, we do not consider that this change, if implemented, should be retrospective in effect and apply to past service.

50. Finally, we see no grounds for continuing the capping restrictions which are applied to increases for pensions in payment. We consider that in respect of future increases in pensions these restrictions should be removed for past as well as current and future office holders.

51. **Recommendations.** We recommend that current and future holders of the offices of Prime Minister, Mr Speaker and Lord Chancellor should be entitled to pensions of one half of their final salary entitlement for the office in question; that the holders of the offices of Prime Minister and Mr Speaker should be able to participate in the pension scheme for MPs but that this should not be allowed retrospectively; and that the capping restrictions which are applied to pension increases for pensions in payment should be removed in respect of future increases in pension for past as well as current and future office holders.

Severance pay for Ministers and other paid office holders

52. In Report No. 20 in 1983, we considered the general position as regards pay and allowances for Ministers and other paid office holders in the House of Lords. We commented that in both Lords and Commons loss of office can come suddenly but, that in contrast to the position in the Commons, there is in the House of Lords no salary to fall back on in such circumstances, and there may be difficulties in resuming a former career. Accordingly we made recommendations which formed the basis for the current arrangements under which Ministers and other paid office holders in the Lords are eligible for severance pay equal to three months of final salary providing they have not reached the age of 65 and have held ministerial office for at least two years.

53. The Lord Privy Seal asked us to consider whether Ministers and other paid office holders not in the House of Lords, whether in the Commons or not, should be eligible for a severance payment on broadly the same terms as are paid to Ministers and other paid office holders in the House of Lords. In examining the matter we have sought in particular the views of the main political parties. One point which has been put to us strongly is that MPs who cease to hold Ministerial office may face an abrupt and substantial drop in income, even if they remain Members of the House. MPs often hold paid appointments outside the House which they must relinquish when appointed as Ministers, and it may take time to pick up the threads of an earlier career. We also recognise that the social and economic background of MPs is changing, reflecting long term changes in society where people have come increasingly to depend on earned income. Awareness of the problems connected with leaving office may serve to deter well qualified and suitable people from seeking it or from entering the House at all. We therefore accept that it has now become appropriate to extend the scheme in the Lords, suitably adapted, to Ministers and other paid office holders in the Commons, or outside both Houses, other than the Prime Minister and Mr Speaker to whom *ex officio* pensions are paid on leaving office. Severance pay will need to be related to the net loss of parliamentary income before tax taking account of the parliamentary salary received by MPs. The calculation of severance pay on this basis is illustrated in Appendix H.

54. It has been suggested to us that if the Lords' scheme were to be extended to the Commons there should be no two year qualifying period; and that the qualifying period should also be abolished in the Lords. We accept that the

principle of a two year qualifying period should be dropped. We also consider that the Lord Chancellor should cease to be eligible under the scheme in the Lords in view of the *ex officio* pension which he, like the Prime Minister and Mr Speaker, is paid on leaving office. We have recommended improvements to the pension arrangements for the Lord Chancellor at paragraph 51.

55. **Recommendations.** We recommend that Ministers and other paid office holders in the Commons, or outside both Houses of Parliament, other than the Prime Minister and Mr Speaker, who cease to hold office for whatever reason before they have reached normal retirement age (65) and who are not reappointed within a period of three weeks should be eligible to receive a payment equivalent to the net loss of three months' parliamentary income; or ministerial salary only if the office holder is outside both Houses of Parliament. We also recommend abolition of the existing rule that to be eligible to receive a severance payment Ministers and other paid office holders in the Lords must have served not less than two years in office; and we recommend that the Lord Chancellor should cease to be eligible to receive a severance payment.

Conclusion and summary of recommendations and suggestions

Conclusion. 56. We have restricted our review in the main to the particular issues put to us by the Lord Privy Seal. We take the view that the parliamentary pension scheme is basically a good one for MPs. The improvements which we have recommended will help to ensure that it continues to meet the special circumstances of parliamentary life and is consistent with good practice elsewhere. In addition to a once and for all capital cost of £1.05m, the improvements will add 0.75 per cent to the total standard contribution, expressed as a percentage of MPs' salaries, which is required by the scheme. However, we are advised by the Government Actuary that the total standard contribution can be reduced from 22 to 20 per cent. As we do not recommend a reduction in the share contributed by MPs there will be a reduction of 1.25 per cent in the share contributed by the Exchequer. In view particularly of the additional contribution which the Exchequer currently makes we consider that this saving is appropriate. Our recommendations on matters other than the parliamentary pension scheme will involve some additional expenditure. During the life of a Government the cost of a severance pay scheme for Ministers and other paid office holders in the Commons would be small; at a change of Government we estimate that at current salary levels the cost would be about £0.5m.

Recommendations and suggestions

57. Our recommendations and suggestions are as follows:

- (i) **Early retirement.** Revised early retirement arrangements should be adopted as described in paragraphs 13 and 14. If accepted, we suggest that the Government Actuary should be asked to assist with the detailed implementation of these arrangements. (Paragraph 17)
- (ii) We suggest that the House consider in the light of the factors described in paragraph 19 whether there would continue to be a need for two kinds of early retirement arrangements, one applying to MPs who retire at times other than a dissolution and another applying to MPs who retire at a dissolution. (Paragraphs 18 to 20)
- (iii) **Resettlement grants.** The existing arrangements for resettlement grants should remain unchanged. (Paragraph 26)
- (iv) **Retrospective change.** The revised early retirement arrangements recommended at paragraph 17 should not be made retrospective. (Paragraph 29)
- (v) **Service as an MEP.** Periods of service as an MP and an MEP should not be allowed to be aggregated for the purposes of the qualifying period for early retirement. (Paragraph 32)
- (vi) **Other improvements.** The death-in-service gratuity should be two years' salary. (Paragraph 34)
- (vii) **MPs' contributions.** Subject to implementation of the recommendations for improvement to the parliamentary pension scheme, MPs should continue to make a pension contribution of 9 per cent of salary. (Paragraph 40)
- (viii) **Supplementary pension scheme.** The changes recommended in the parliamentary pension scheme should apply also to the supplementary scheme for Ministers and other paid office holders. (Paragraph 42)

- (ix) **Pension arrangements for the Prime Minister, Mr Speaker and the Lord Chancellor.** Current and future holders of the offices of Prime Minister, Mr Speaker and Lord Chancellor should be entitled to pensions of one half of their final salary entitlement for the office in question; the holders of the offices of Prime Minister and Mr Speaker should be able to participate in the pension scheme for MPs but this should not be allowed retrospectively; and the capping restrictions which are applied to pension increases for pensions in payment should be removed in respect of future increases in pension for past as well as current and future office holders. (Paragraph 51)
- (x) **Severance pay for Ministers.** Ministers and other paid office holders in the Commons, or outside both Houses of Parliament, other than the Prime Minister and Mr Speaker, who cease to hold office for whatever reason before they have reached normal retirement age (65) and who are not reappointed within a period of three weeks should be eligible to receive a payment equivalent to the net loss of three months' parliamentary income; or ministerial salary only if the office holder is outside both Houses of Parliament. The existing rule should be abolished that to be eligible to receive a severance payment Ministers and other paid office holders in the Lords must have served not less than two years in office. The Lord Chancellor should cease to be eligible to receive a severance payment. (Paragraph 55)

FLOWDEN
TERENCE BECKETT
DEREK BIRKIN
LOUISE BOTTING
CHORLEY
ROBIN IBBS
PETER MATTHEWS
JEREMY POPE
THOMAS SKYRME

OFFICE OF MANPOWER ECONOMICS
30 March 1988

Appendix A

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

24 July 1987

Dear Lord Plowden,

I am writing to invite the Top Salaries Review Body to undertake a review of the Parliamentary Pension Scheme (together with the question of resettlement grants for those Members who retire at a General Election), the pensions of the Prime Minister, Speaker and Lord Chancellor and Ministerial severance pay.

I realise that your Committee have relatively recently reviewed (in May 1983) the Parliamentary Scheme, but during the passage of the Parliamentary and Other Pensions Act 1987 there was a feeling that the time had come for a further review. In particular, concern has been expressed about certain apparent anomalies in the Scheme.

There are unfortunately some pressing time constraints. Regulations must be in place by 1 April 1988, changing the existing Scheme to incorporate the provisions of the Social Security Act 1986. This will enable Members to opt out of the Parliamentary Scheme in favour of a personal pension, if they so wish. Regulations will have to be laid in good time to meet this target. It would clearly be desirable to incorporate any agreed changes resulting from your review of those regulations, so that Members may take an informed decision. In these circumstances, I would hope that you would be able to report by the end of this year.

The Government would therefore be most grateful if the Review Body could undertake a review of the Parliamentary Scheme and in particular consider the following anomalies:

- i A Member who is over 60 and has served as an MP for not less than 20 years qualifies for an unabated pension, part of which he or she may, like all MPs, commute into a tax free lump sum up to the Inland Revenue limits ($1\frac{1}{2}$ of final salary). But resettlement grants are currently available only to MPs who leave at a General Election and under the age of 65. Should this arrangement for resettlement grants continue? Or (a) should those over 65 also be eligible for resettlement grant; or (b) should the resettlement grant be limited to those under 60?
- ii Members who retire at age 60 with 20 years service get a full unabated pension, those who retire earlier with 20 years service must wait until they are 65 (although they may draw an immediate abated pension). Is there a case for those retiring at age 55 or more with 20 years service to receive a full pension at 60? If so, would this create further anomalies? In either case, could any anomalies be avoided by some form of tapering?

Perhaps the Review Body could also consider whether it is desirable to make any recommended changes retrospective, for those who retired at the last General Election.

In addition to these points the Government would be grateful if the Review Body would consider whether service as an MEP should count towards the 20 year qualifying period in the Parliamentary Scheme: this was raised in the House of Lords during the Committee stage of the Parliamentary Pension etc Act 1984.

In the debate during the passage of the Parliamentary and Other Pensions Act 1987 some concern was expressed about the fixed nature and level of Members' contributions (currently 9%). In framing your conclusions on the points above, you will wish to form a view on these questions.

The Government would also like to invite the Review Body to consider the pensions payable to the Lord Chancellor, the Speaker and the Prime Minister. The

Prime Minister's pension is calculated at 15/40ths of the salary payable to the Prime Minister currently in office. There are similar calculations in the case of the Lord Chancellor's and the Speaker's pensions. The questions for consideration are whether this linkage remains appropriate; whether (if so) the linkage should be the current fraction or some higher figure; and whether it should apply to the whole salary, including in the case of the Prime Minister, both the Parliamentary and Ministerial elements. I hope that you will also examine whether a Speaker or Prime Minister might be permitted to contribute, in the way other Ministers and office holders can, to the Parliamentary Pension Scheme, and whether any such contribution can be made in respect of past service.

Finally, the Government would be grateful if you could consider whether Ministers and other office holders not in the House of Lords (whether in the House of Commons or not) should receive, on relinquishing Ministerial office, a severance payment on broadly the same terms as are paid to Ministers and other office holders in the House of Lords.

The Government continues to value and appreciate the informed and independent advice of the Review Body in this sensitive and difficult area.

JOHN WAKEHAM

Lord Plowden KCB KBE
Chairman
Top Salaries Review Body

Appendix B

Previous Review Body reports on parliamentary matters

- First Report: Ministers of the Crown and Members of Parliament—Cmnd 4836, December 1971.
- No. 5: Members of Parliament: Allowances—Cmnd 5701, July 1974.
- No. 7: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part I—Cmnd 6136, July 1975.
- No. 8: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part II—Cmnd 6574, July 1976.
- No. 9: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part III—Cmnd 6749, March 1977.
- No. 12: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part I—Cmnd 7598, June 1979.
- No. 13: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part II—Cmnd 7825, February 1980.
- No. 15: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance—Cmnd 7953, July 1980.
- No. 17: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance—Cmnd 8244, May 1981.
- No. 20: Review of Parliamentary Pay and Allowances: Volumes I & II—Cmnd 8881, May 1983.
- No. 24: Review of Parliamentary Allowances: Volumes I & II—Cm 131, April 1987.

Appendix C

List of those who gave evidence and professional advice

Evidence

The Rt. Hon. John Biffen MP

Mr Eric Cockeram JP

Mr M E Corcoran—Secretary to the Managers of the European Parliament (UK Representatives) Pension Scheme

Mr J L G Dobson—Secretary, Parliamentary Contributory Pension Fund

Mr Brynmor John MP—Chairman of the Parliamentary Affairs Committee of the Parliamentary Labour Party

Sir Anthony Kershaw

The Rt. Hon. Alfred Morris MP—Chairman of the Trustees of the Parliamentary Contributory Pension Fund

The Rt. Hon. John Morris QC, MP

Mr Cranley Onslow MP—Chairman of the 1922 Committee

The Rt. Hon. Stanley Orme MP—Chairman of the Parliamentary Labour Party

The Rt. Hon. John Wakeham MP—Lord Privy Seal (now Lord President of the Council) and Leader of the House of Commons

Professional advice

Mr E A Johnston—Government Actuary

R Watson and Sons—Consulting Actuaries

Appendix D

A summary of parliamentary pension arrangements

General

1. A pension scheme for Members of the House of Commons was first introduced with effect from October 1964 under the Ministerial Salaries and Members' Pension Act, 1965. The scheme has been considerably improved since then and operates under the Parliamentary Pensions Acts, 1972-1987.
2. The scheme is open to all MPs with the exception of past and present Prime Ministers and Mr Speakers who, like the Lord Chancellor, are entitled to *ex officio* pensions from public funds.
3. Ministers and other paid office holders in both the House of Commons and the House of Lords, with the exception of the Prime Minister, Mr Speaker and the Lord Chancellor, may also contribute to a supplementary pension scheme. This scheme is similar to the basic scheme for MPs.

Pension Fund

4. The pension scheme is based on the Parliamentary Contributory Pension Fund managed by Trustees appointed by the House of Commons. The Government Actuary makes an assessment of its general financial position every three years.

Contributions

5. MPs are required to contribute 9 per cent of their salaries. The Exchequer contributes at a rate recommended from time to time by the Government Actuary. This is currently equal to 13 per cent of MPs' salaries, making up what is known as the standard contribution of 22 per cent. However, at present this is insufficient to meet the costs of the scheme and accordingly the Exchequer is currently called upon to make an additional contribution equivalent to 6 per cent of MPs' salaries.

Pensionable service

6. Service for which contributions have been paid since 16 October 1964 when the scheme was introduced reckons for pension purposes. Service prior to that date for which contributions would not have been paid reckons for pension purposes up to a maximum of 10 years, provided the MP served at some time between 16 October 1964 and 1 August 1978; or up to 15 years provided the MP also served on or after 2 August 1978.

Added years

7. An MP may, subject to certain conditions, purchase added years of service reckonable for pension purposes either by periodical contributions from salary or by a lump-sum payment.

Pension accrual

8. Pensions accrue at the rate of one sixtieth of the MP's salary over the last 12 months for each year (*pro rata* for a part year) of reckonable service up to 19 July 1983; one fiftieth thereafter.

Normal and earlier retirement

9. Retirement pensions are payable from age 65 to those who are no longer MPs. Pensions may be paid before age 65 in the following circumstances:

- (i) Subject to medical evidence an MP may be awarded an ill-health retirement pension at any age.
- (ii) An MP aged 60 or over who has completed at least 20 years' service in the House may receive a full accrued pension, this option being exercisable only at the dissolution of Parliament. An MP aged 57 or over who has at least 16 years' service may also receive an immediate pension at a dissolution but the pension is reduced by an amount which depends on age and service.
- (iii) Provisions also exist for a former MP to receive an actuarially reduced pension at any time between ages 50–65.

Pensions for widows, widowers and children

10. Pensions are payable to widows and widowers of deceased MPs, subject to certain prescribed conditions, normally at the rate of 50 per cent of the deceased's pension or notional pension. In addition a children's pension of a similar amount is payable if there are two or more eligible children, or one half of the amount if there is only one eligible child. In the case of MPs who die in service, the notional pension is the enhanced pension that would have been payable had ill-health retirement taken place at the date of death.

Death-in-service benefits

11. A lump sum gratuity equal to the greater of one year's salary or total unrefunded contributions accumulated with interest from the dates of payment may be paid on the death-in-service of an MP to his or her spouse. In addition, the widow's (or widower's) and children's pensions, taken together, are augmented for the first three months up to the rate of an MP's salary at death.

Transferability

12. Transfer payments can be made from other superannuation schemes when an MP enters the parliamentary scheme, and similar payments can be made to other schemes when an MP leaves the House.

Contracting out

13. The parliamentary pension scheme is contracted out of the state pension scheme.

Increases in pension

14. Adjustments to pensions arising from changes in the cost of living are made in accordance with the Pensions (Increase) Acts.

Appendix E

Abatements in pension payable immediately under current early retirement arrangements for MPs who retire at a dissolution

Percentage abatements from full accrued pension for men

Age on retirement at dissolution	Years' service				
	20 or more	19	18	17	16
65	0.0	0.0	0.0	0.0	0.0
64	0.0	2.0	4.0	5.9	7.9
63	0.0	3.7	7.5	11.2	14.9
62	0.0	5.3	10.6	15.8	21.1
61	0.0	6.7	13.3	20.0	26.6
60	0.0	7.9	15.8	23.7	31.6
59	14.6	20.0	25.4	30.7	36.1
58	29.3	32.0	34.7	37.5	40.2
57	43.9	43.9	43.9	43.9	43.9

1. The abatements in the last column (16 years' service) and the last row (age 57) are calculated actuarially so that the value of the abated pension payable immediately is equal to the value of the unabated pension payable from age 65. For older ages and longer periods of service the abatements are less severe being tapered towards a zero abatement at retirement ages 60 and over where service is 20 years or more. Somewhat lower abatements apply for women.

2. As an alternative to the above abatements MPs may opt for a dual abatement, the reduction being lower before state pension age than afterwards, the objective being to equalise as far as possible the total annual pension received before and after that age from the parliamentary scheme and the state scheme. The total actuarial value of the two-tier pension is the same as under the single abatement system.

Appendix F

Abatements in pension payable immediately under Government Actuary's proposed early retirement arrangements for MPs who retire at a dissolution

Percentage abatements from full accrued pension for men

Age on retirement at dissolution	Years' service					
	20 or more	19	18	17	16	15
65	0	0	0	0	0	0
64	0	0	0	0	0	7
63	0	0	0	0	7	14
62	0	0	0	7	14	20
61	0	0	7	14	20	26
60	0	7	14	20	26	31
59	7	14	20	26	31	36
58	14	20	26	31	36	40
57	20	26	31	36	40	44
56	26	31	36	40	44	47
55	31	36	40	44	47	50
54	36	40	44	47	50	53
53	40	44	47	50	53	56
52	44	47	50	53	56	58
51	47	50	53	56	58	60
50	50	53	56	58	60	62

Appendix G

Resettlement grants for MPs who leave the House of Commons at a dissolution

Amount payable as a percentage of annual salary

Age	Length of service (completed years)						
	Under 10	10	11	12	13	14	15 or over
Under 50	50	50	50	50	50	50	50
50	50	50	52	54	56	58	60
51	50	52	55	58	62	65	68
52	50	54	58	63	67	72	76
53	50	56	62	67	73	78	84
54	50	58	65	72	78	85	92
55-64	50	60	68	76	84	92	100

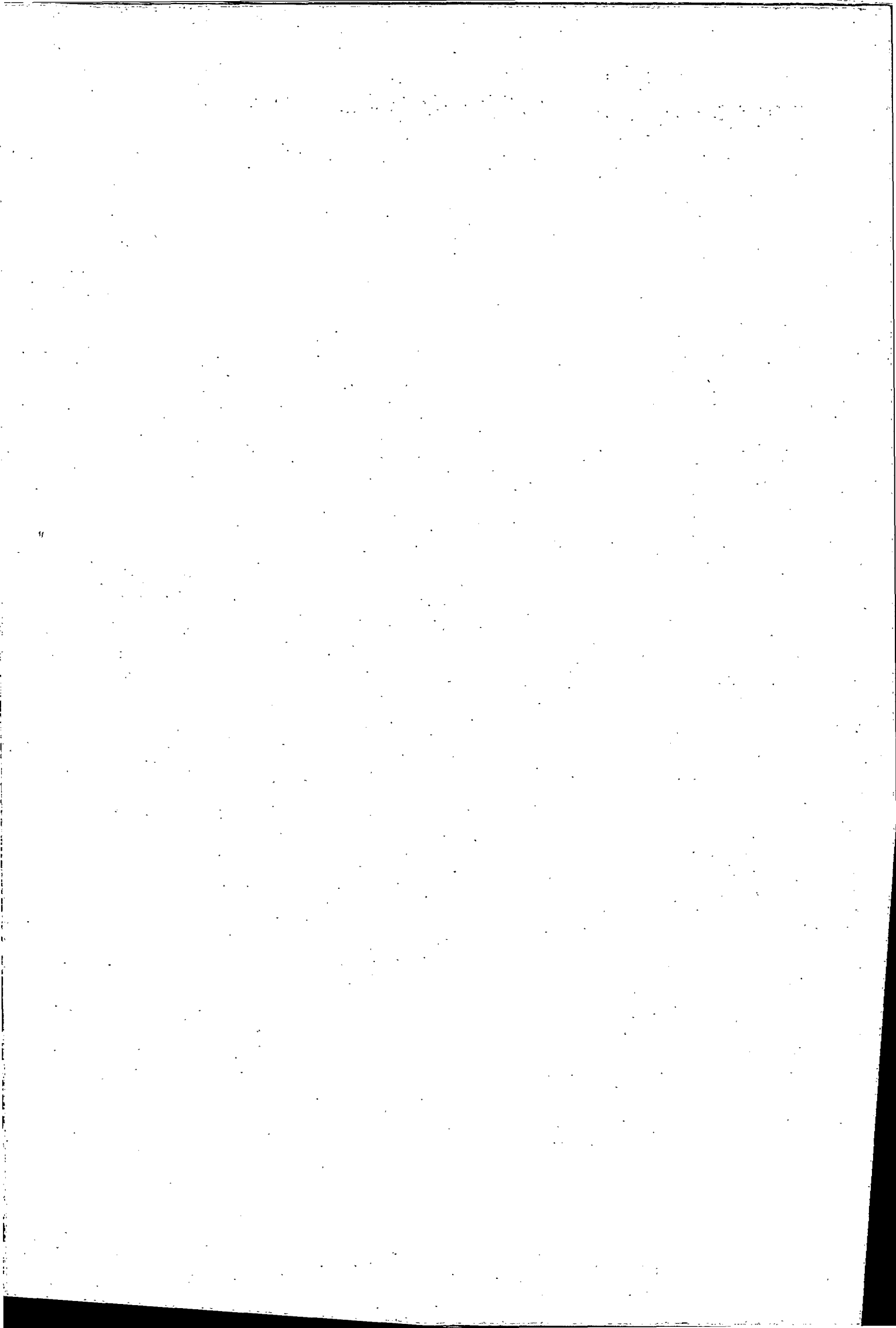
Appendix H

Calculation of net loss of parliamentary income on which to base three months' severance pay for Ministers and other paid office holders in the Commons

1. Ministers and other paid office holders in the Commons receive, in addition to their office salary, a parliamentary salary which is less than that received by back-bench MPs. A severance pay scheme based on net loss of parliamentary income would need to take account of the increase in parliamentary salary when a Minister or other paid office holder returns to the back-benches.

2. The following table illustrates the financial implications involved for Ministers at current rates of salary.

(a) Office, office salary and reduced parliamentary salary	(b) Total salary	(c) Full MP's salary	(d) Net loss of income on leaving office ((b) - (c))	(e) Three months' severance pay based on loss of income
Parliamentary Secretary £17,897 + £16,911	£34,808	£22,548	£12,260(35%)	£3,065
Minister of State £23,887 + £16,911	£40,798	£22,548	£18,250(45%)	£4,563
Cabinet Minister £34,157 + £16,911	£51,068	£22,548	£28,520(56%)	£7,130





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