

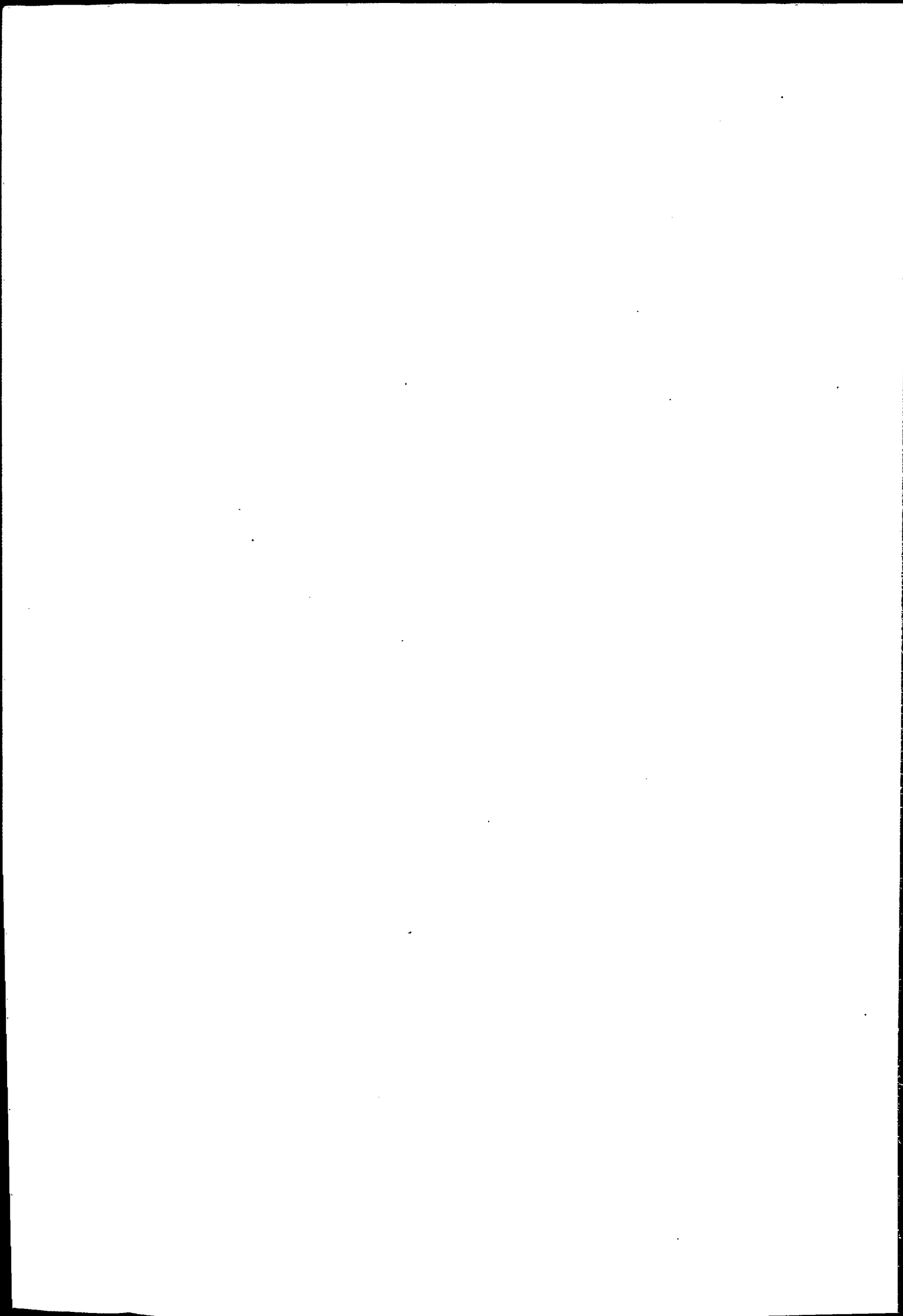


# Review Body on Top Salaries

REPORT NO. 31

Review of the Parliamentary Pension  
Scheme and of Resettlement Grants  
for Members of Parliament

*Chairman:* Sir David Nickson, KBE, DL





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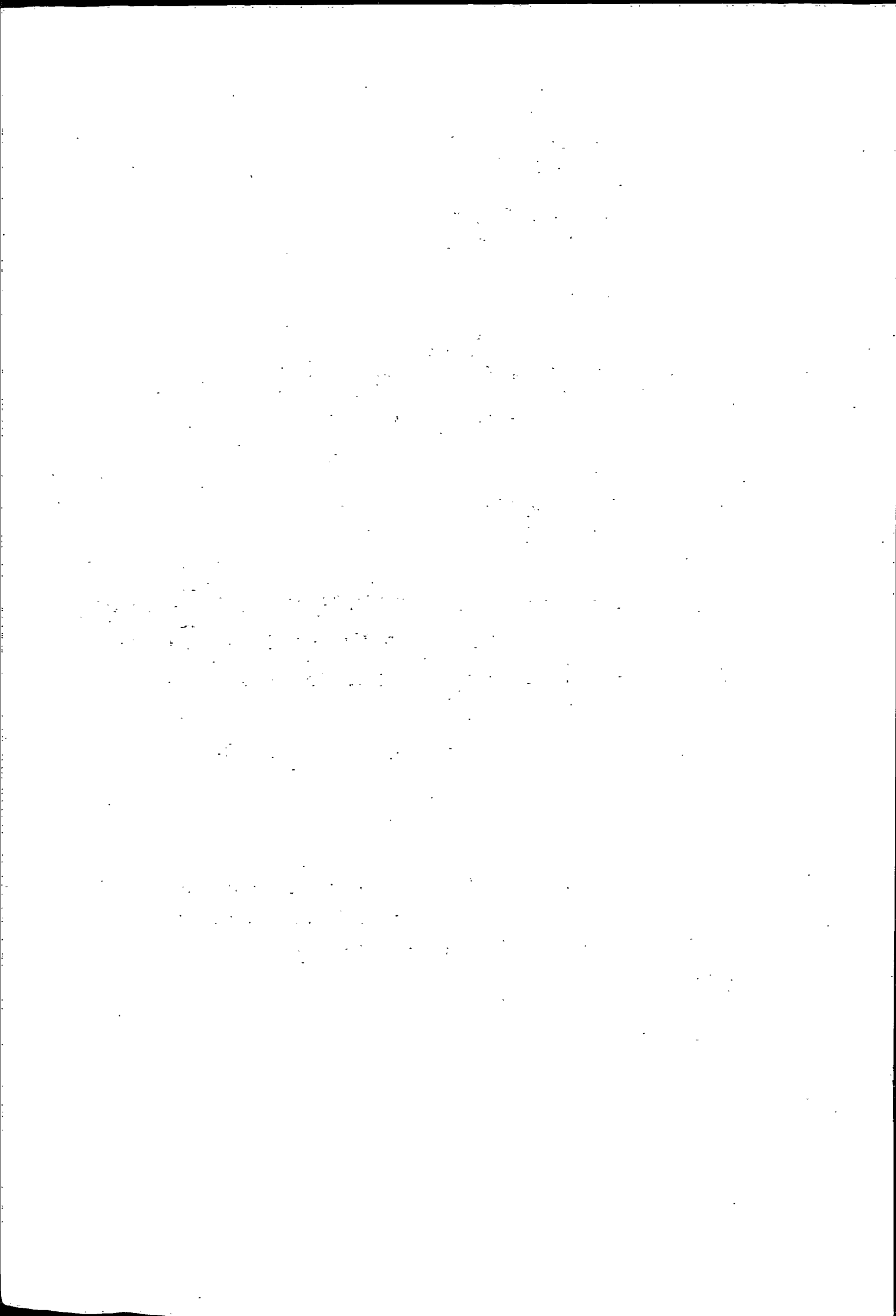
*Chairman:* Sir David Nickson, KBE, DL

Presented to Parliament by the Lord President of the  
Council and Leader of the House of Commons by  
Command of Her Majesty June 1991

LONDON : HMSO

£5.10 net

Cm 1576



## **Review Body on Top Salaries**

On 4 February 1991 the Review Body on Top Salaries was invited by the Lord President of the Council and Leader of the House of Commons<sup>1</sup> to undertake a review of the parliamentary pension scheme and of resettlement grants for Members of Parliament.

The members of the Review Body are:

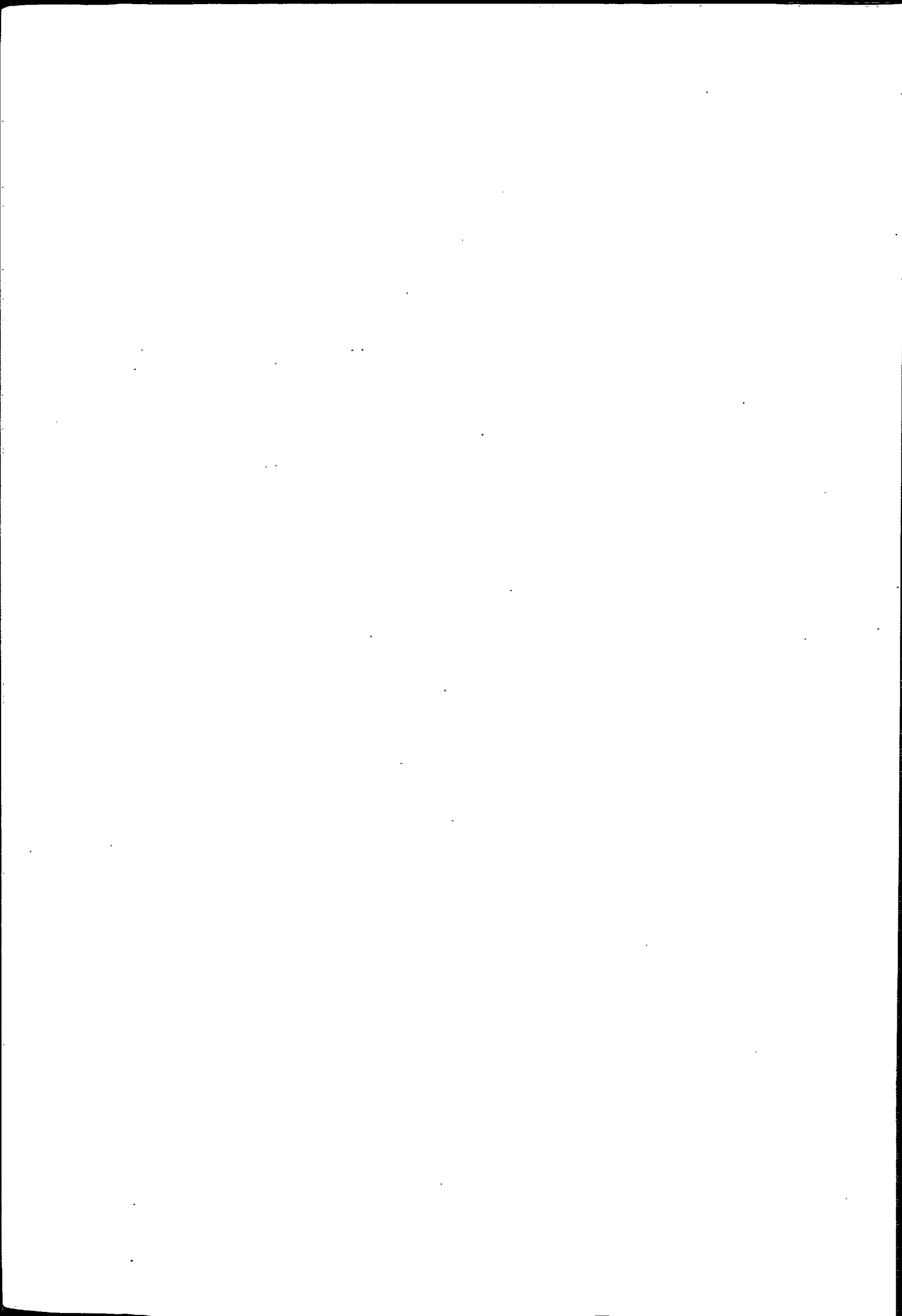
Sir David Nickson, KBE, DL, Chairman  
Sir Terence Beckett, KBE  
Louise Botting  
Ann Burdus  
Sir Peter Cazalet<sup>2</sup>  
Sir Cecil Clothier, KCB, QC  
Allan Gormly, CBE  
Hugh Pigott  
Jeremy Pope, OBE  
Sir Anthony Wilson

The Secretariat is provided by the Office of Manpower Economics.

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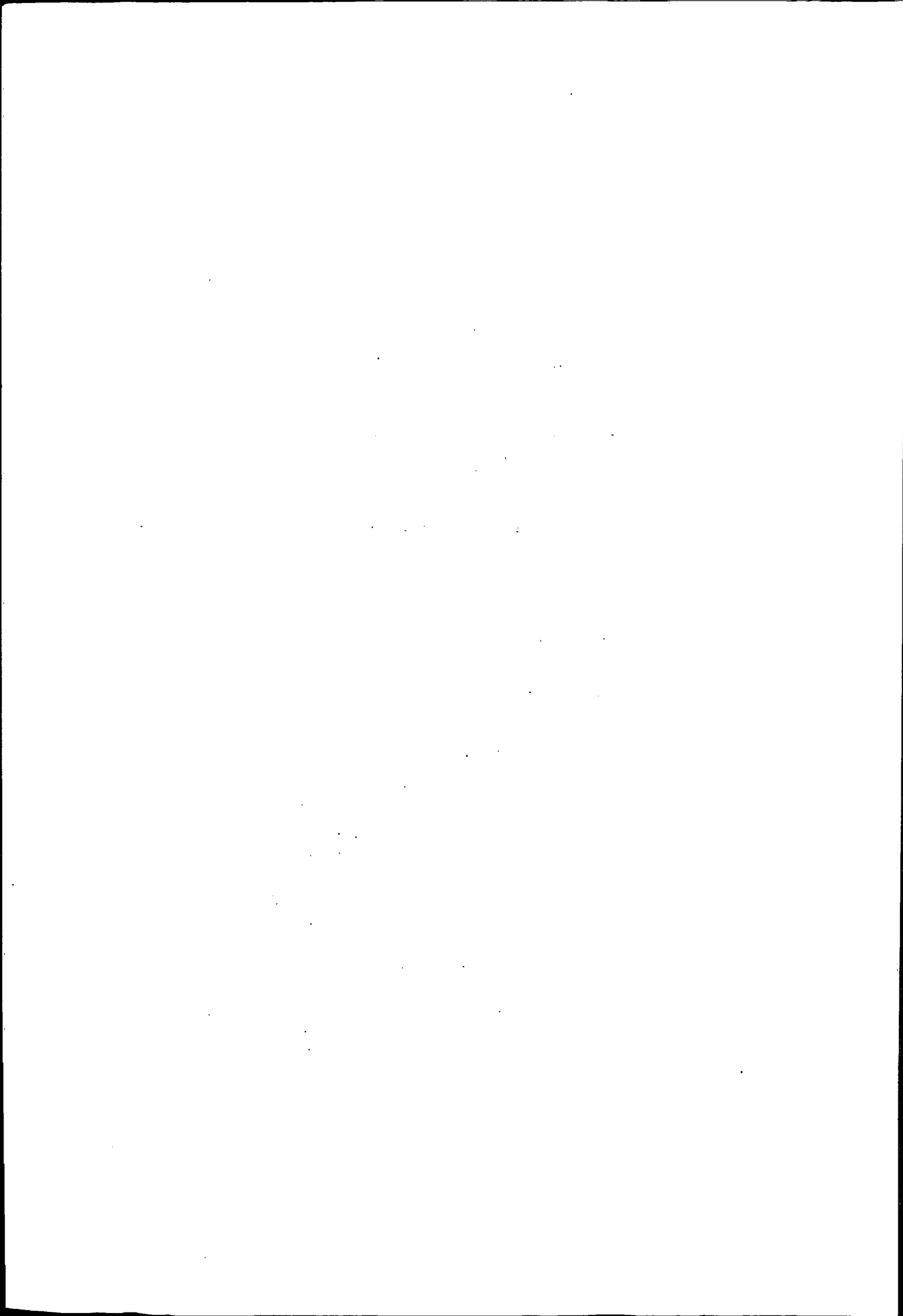
<sup>1</sup>The Rt Hon John MacGregor, OBE, MP.

<sup>2</sup>Sir Peter Cazalet is also Chairman of the Review Body on Armed Forces Pay.



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## Introduction

1. In a letter dated 4 February 1991, the Lord President of the Council and Leader of the House of Commons invited us to review certain aspects of the parliamentary pension scheme and resettlement grants for MPs who leave the House at a general election. His letter is reproduced at Appendix B.

### Report on resettlement grants

2. The Lord President asked us to report at the earliest possible date on resettlement grants in view of the widespread concern in the House about the operation of the eligibility rule under which MPs aged 65 or over did not qualify for grants. We submitted our report on this issue on 10 April 1991. In the light of all the evidence available to us, we accepted that the resettlement grant arrangements were not satisfactory and we recommended that eligibility should be extended to MPs aged 65 or over on a tapered basis, according to length of service and age. The Lord President announced to the House on 29 April 1991 that the Government was minded to accept our recommendation. He said its implementation would require a resolution of the House which he intended to bring forward at an early opportunity. A resolution implementing the Review Body's recommendation in full was passed on 22 May 1991.

3. When the Lord President made his announcement on 29 April, copies of our report were placed in the Library of the House. The Lord President said it would be published with our report on parliamentary pensions. It is accordingly reproduced at Appendix C.

### Review of parliamentary pensions

4. The other part of our remit concerns MPs' pensions. In his letter of 4 February 1991, the Lord President asked us to consider:

(i) the basis for determining the balance between the Exchequer and Member contributions to the Parliamentary Contributory Pension Fund;

(ii) the role the Government Actuary should play in the financing arrangements; and

(iii) whether the pension accrual rate should be improved.

In considering these issues, we were asked by the Lord President to take account of experience in other parliamentary pension schemes, both Commonwealth and European.

5. The Lord President also referred in his letter to the recent decision, reached in the light of Members' concern over the surplus in the pension fund, to improve widows' and widowers' pensions from half to five-eighths of the Member's pension. This was in response to a request from the Trustees of the Parliamentary Contributory Pension Fund for an increase to two-thirds, which he said remained the Trustees' objective. The Trustees confirmed this aim in evidence to us. They and some individual MPs made it clear that they saw the main issues in our review to be that the pension fund surplus should be used, at least in part, to improve benefits, such as those for spouses, and/or to reduce the Members' contribution. The current contribution rate of 9 per cent of salary was seen by the Trustees and many individual MPs as unjustifiably high.

6. The issues raised by the reference cover every aspect of the parliamentary pension arrangements, which are summarised at Appendix D. We have examined the overall package of benefits provided and, in addition, considered the question of future arrangements for reviewing the scheme.

### Inquiries

7. We invited written and oral evidence from the Government, the Trustees, the Government Actuary, the 1922 Committee, the Parliamentary Labour Party and the other main opposition parties. Written evidence was also received from individual MPs. A list of all those who gave evidence is at Appendix E; and we also took account of the views of those who spoke in the parliamentary debate on 31 January 1991, which immediately preceded the reference to us, and in the debate a year previously on 17 January 1990. In addition we have been assisted by

R Watson and Sons, consulting actuaries; the Government Actuary's Department which costed particular proposals for us in the light of the most recent valuation of the pension fund as at 1 April 1990; the National Association of Pension Funds which conducts an annual survey of occupational pension schemes; and Dr Michael Rush of Exeter University whom we asked to collect information on parliamentary pension schemes in other countries. We are grateful for the professional advice we have received. It was of considerable assistance to the sub-committee which we set up, chaired by Louise Botting with Sir Terence Beckett and Sir Anthony Wilson as its other members, to look in detail at the issues arising on the reference.

**General approach** 8. In reaching our conclusions on the matters arising on parliamentary pensions we have been guided by good current practice in the private sector whilst still having regard to the position in the public sector. We have also taken account of the special circumstances of parliamentary life. Typically, MPs are elected to the House for the first time in their late thirties or early forties. They often retire in their late sixties, and thus their expectation of life in pensionable retirement is less than that for most occupational groups. These factors, together with the uncertainty of a parliamentary career, have a bearing on the funding of parliamentary pensions and the benefits appropriate for MPs, and we have taken them fully into account.

9. We have also taken account of the Government Actuary's latest valuation of the parliamentary pension fund which he was in the process of completing during our review. The Government Actuary is required, under present legislation, to recommend the residual contribution rate which, in addition to the Members' pre-determined contribution, is needed from the Exchequer. Under present arrangements, the revised residual contribution rate recommended in the Government Actuary's latest report would be due to take effect from April 1992, but this rate would be increased by the implementation of our recommendations.

**International comparisons** 10. We have considered, as in our review of resettlement grants, the available evidence on practices in overseas parliaments. We have looked at information relating to a number of major European and Commonwealth countries with which it might be particularly appropriate to compare the United Kingdom. All have pension schemes: some are non-contributory whilst contribution levels for the rest vary widely. We have also examined information collected by the International Parliamentary Union from countries throughout the world, which showed that parliamentary pension schemes existed in only just over half the countries studied. As in the case of resettlement grants, countries have evolved provisions to suit their own circumstances and requirements. In so far as we have been able to make meaningful comparisons, it appears that whilst provision in some countries is better than that in the United Kingdom there is no evidence that MPs here are less well provided for than the generality of their counterparts elsewhere and indeed their entitlements are better than those in most other countries.

### **Financing Parliamentary Pensions**

11. The primary issue which the Lord President asked us to consider was the system for determining the relationship between the Member and the Exchequer contributions to the pension fund. Under existing arrangements, the total contribution required is shared between Members and Exchequer according to what is known as the "balance of cost" method. Members pay a specified contribution, which is currently fixed at 9 per cent of pay. The residual balance required is paid by the Exchequer. Underlying this issue is widespread concern in the House that the parliamentary pension scheme is inequitable to Members, as regards the level of their contributions and the benefits they are entitled to receive. In reviewing these matters, we found it essential to explore in detail the background to the current financing arrangements before deciding whether to recommend that the method of financing the scheme should be changed.

**Total standard contribution** 12. The parliamentary pension scheme is a "final salary" one, where pensions payable are determined by length of service and final salary. The cost, and therefore the total contribution required from Members and Exchequer, cannot be determined precisely in advance. Actuarial assumptions are made about the fund's future liabilities and the return on the investment of the contributions set aside to meet them. The total contribution required in the long term, from Members and Exchequer taken together, based on these assumptions and expressed as a percentage of salary, is known as the "total standard contribution". This is the rate which if paid throughout a Member's service is estimated to be sufficient, on average, to provide the benefits of the scheme, including full indexation of pensions in line with the movement in the Retail Prices Index.

13. Over the last two decades the benefits provided by most occupational pension schemes have improved materially and as a result total standard contributions (although affected by other factors as well as by the level of benefits) have risen. The parliamentary pension scheme has been no exception to this trend, as Table 1 shows. Between 1972 and 1990, the total standard contribution required by the parliamentary pension fund increased from 13.5 per cent of salary to 23.0 per cent.

*Table 1* Total standard contribution required by the parliamentary pension fund, as estimated triennially by the Government Actuary

Valuation year	Total standard contribution (per cent of salary)
1972	13.5
1975	15.0
1978	15.0
1981	18.0
1984	22.0
1987	20.0
1990	23.0

Source: The Government Actuary

14. Two unusual factors affect the funding of parliamentary pensions, a combination rarely replicated in the private or public sectors: late entry, together with late retirement. Pension contributions in schemes generally made in respect of staff in their twenties and early thirties have many years in which to accumulate and, when invested, to appreciate in value. Any employer with a relatively young workforce will see this reflected in the actuarial assessment of the total standard contribution required. For the parliamentary pension scheme, the Government Actuary has told us that if the typical age of entry of MPs to the House, currently around 40, were 10 years less, that would reduce the total standard contribution required for MPs by some two percentage points. In contrast, the effect of late retirement, with MPs retiring on average in their late sixties, reduces the cost of parliamentary pensions, since the period for which pension is then paid is less than for groups who retire at, say, 60. Thus lower costs arising from later retirement act as an offset to the higher costs associated with late entry and with the relatively fast rate of pension accrual for MPs.

**Total actual contribution** 15. Most of the factors on which total standard contributions are based can be predicted with a reasonable degree of accuracy. However, changes in investment returns can give rise to considerable fluctuations in the state of pension funds. In times of poor investment returns, such as the 1970s, deficits appear; in times of much better investment returns, such as the 1980s, surpluses arise. In this respect the experience of the parliamentary pension fund has been similar to that of pension funds generally. Successful investment policies have resulted in surpluses being reported in the Government Actuary's 1987 and 1990 valuations. The Government Actuary's most recent valuation which he has just completed, revealed as at 1 April 1990 an asset surplus of £7.3 million over liabilities of £111.7 million.

16. Normal practice is for the assets and liabilities of pension funds to be re-examined triennially by an actuary who will recommend a total *actual* contribution rate, which adjusts the total contribution rate upwards or downwards to eliminate a deficit or surplus over a specified period. The total actual contribution rates, compared with the total standard contribution, recommended for the parliamentary pension fund by the Government Actuary are shown in Table 2. Between the 1972 and 1984 valuations the recommended total actual contribution rose from 20.4 per cent to 27.0 per cent. In the 1987 and 1990 valuations the recommended total actual contribution fell sharply, as the result of pension fund surpluses, first to 13.4 per cent and then to 11.8 per cent respectively.

**Table 2 Total actual contribution and total standard contribution required by the parliamentary pension fund, as estimated triennially by the Government Actuary**

Valuation year	Total actual contribution	Total standard contribution (per cent of salary)
1972	20.4	13.5
1975	23.25	15.0
1978	22.2	15.0
1981	25.8	18.0
1984	27.0	22.0
1987	13.4	20.0
1990	11.8 <sup>a</sup>	23.0

<sup>a</sup>This rate is due, in the absence of any parliamentary action to the contrary, to take effect from 1 April 1992.

Source: The Government Actuary

17. The reduction in the total actual contribution rate recommended in the 1987 valuation report was principally due to the improvement in investment returns. Meanwhile, by the time the Government Actuary had made his recommendation there had been a sharp rise in the contribution which the House had agreed Members should pay towards their pensions. This is shown in Table 3. The increase, which was staged, in the Members' contribution from 6 per cent to the current rate of 9 per cent resulted in a corresponding decrease in the residual contribution required from the Exchequer. This decrease was accentuated by the fall in the total actual contribution required. Ten years ago the Government Actuary recommended a residual contribution which resulted in the Exchequer paying more than three times as much as that paid by Members. Currently the Exchequer is paying about one-half of the Members' contribution and as a consequence of the Government Actuary's latest report this is due to fall to about one-third. It is partly for this reason that the Trustees and many individual MPs have asked that Members should pay a fixed proportion of the total actual contribution rather than a pre-determined percentage of salary.

**Table 3 Members' and Exchequer shares of the total actual contribution required by the parliamentary pension fund**

Valuation year	Actual contributions:			Exchequer contribution as a multiple of Members' contribution
	Total	Members'	Exchequer	
	(per cent of salary)			
1972	20.4	5	15.4	3.1
1975	23.25	5	18.25	3.7
1978	22.2	6	16.2	2.7
1981	25.8	6	19.8	3.3
1984	27.0	9	18.0	2.0
1987	13.4	9	4.4	0.5
1990	11.8 <sup>a</sup>	9	2.8 <sup>a</sup>	0.3

<sup>a</sup>These rates are due, in the absence of any parliamentary action to the contrary, to take effect from 1 April 1992.

Source: The Government Actuary

Note. For ease of reference Tables 1, 2 and 3 are amalgamated in a single table in Appendix F.

**Possible alternative financing arrangements**

18. When considering the question of appropriate financing arrangements for the parliamentary pension fund we have assumed that Members' pensions should continue to be based on final salary. The alternative would be a "money purchase" scheme. This has different characteristics from a final salary scheme in that the costs are known but the emerging benefits cannot be determined precisely in advance. No evidence has been put to us proposing that MPs would want to switch to a money purchase scheme and give up guaranteed benefits. Over 90 per cent of occupational pension schemes are final salary schemes.

19. We have also looked at, but rejected, the suggestions made by some MPs that the parliamentary pension scheme should become unfunded or non-contributory. An unfunded scheme does not necessarily mean that pensions would be non-contributory and it would lose the advantage for Members of accumulating investment income. The introduction of a non-contributory scheme could be controversial, unless pay were reduced correspondingly which would result in a lower final salary for pension purposes. There would therefore be difficulties and drawbacks in any move to an unfunded or non-contributory scheme for MPs, without such a move in itself doing anything to resolve the issues put to us.

20. Another proposal is for Members to pay a fixed proportion of the total cost and we have explored this. The obvious attraction to the Trustees and a number of individual MPs, who would like the fixed proportion approach to be adopted, is that Members would benefit, in current circumstances, from the surplus in the pension fund by means of a lower contribution rate. In the past we have recommended, in respect of the total *standard* contribution, a ratio of 3:5 between Member and Exchequer contributions. If this were applied to the total *actual* contribution rate from April 1992 of 11.8 per cent, MPs would contribute 4.4 per cent and the Exchequer 7.4 per cent. However, had the ratio been applied in earlier years when, as the result of fund deficits, the total actual contribution was much higher, the Members' contribution rate could have risen to double figures following the 1984 valuation when the total actual contribution increased to 27.0 per cent. The Members' contribution would therefore, under this approach, become volatile with the longer term possibility of unwelcome increases.

21. The fixed proportion system would also give rise to inequities between generations in that a surplus or deficit relating to the contributions of Members in the past would affect the contributions of Members in the future. If a reduction in contributions were shared equally between Exchequer and Members, new MPs would pay much less than their fair share of costs, because the surplus built up in respect of present MPs' past service would be shared with the new MPs. Conversely, present MPs near retirement would receive very little benefit from the surplus because their future contributory service would be relatively short. If deficits emerged, the reverse of the above would apply; new MPs would pay more than they should, and older MPs too little.

22. In pension schemes generally there has been a long term trend away from the fixed proportion approach and the overwhelming majority of schemes now operate on a balance of cost basis. According to the 1990 survey by the National Association of Pension Funds, 14 per cent of schemes are described as operating on a fixed proportion basis but some are money purchase schemes, and therefore irrelevant in this context, while few of the remainder are likely in practice to adhere to a strict fixed proportion basis.

23. Whilst the Government has made it clear that it wishes to retain the existing balance of cost method, it recognises that MPs feel they are being treated unfairly at times of surplus when there will be pressure, as now, for benefits to be improved regardless of the long term effect on the total standard contribution. The advantages of the balance of cost method, however, are considerable because MPs have a stable contribution rate and generational inequities are avoided. The Exchequer has the liability of meeting the cost of deficits but in return it benefits from a reduced contribution at times of surplus. The 1990 survey by the National Association of Pension Funds indicates that because of current surpluses employer contribution "holidays", during which they pay no contributions, are in

operation in 29 per cent of schemes and that employers are benefiting from a reduction in their contribution in another 18 per cent of schemes. This appears to be equitable to the scheme members involved where they regard their fixed level of contribution and their benefits as being acceptable.

**24. Recommendation 1.** We recommend that the balance of cost method should be retained for determining the relationship between the Exchequer and Member contributions to the Parliamentary Contributory Pension Fund.

### **Roles of the Government Actuary and the Review Body**

**25.** In his letter of 4 February, the Lord President asked us to consider what role the Government Actuary should play in the financing arrangements. The Government Actuary is required by legislation to make triennial reports on the general financial position of the fund and to recommend the balance of cost contribution required from the Exchequer. The role is essentially to give independent and impartial advice on the cost of the pension arrangements and other technical assistance as required. As actuary to most of the public service schemes and a number of other public sector and nationalised industry schemes, the Government Actuary is ideally placed to act for the parliamentary scheme. However, the Trustees have suggested to us that the Government Actuary is in an invidious position due to the constraints imposed by the Parliamentary Pensions Acts which require him to recommend only an Exchequer contribution rate. In similar schemes in the private sector the actuary would give preliminary advice on the state of the fund to the employer. If there were a surplus, the employer might then consider, perhaps with the unions or staff associations, whether to improve benefits and/or reduce members' contributions, possibly as part of a package on pay and conditions. However, for MPs there is no "employer" and no union or staff association. The Trustees strictly have only a fiduciary duty and the Government Actuary's role is constrained by statute. There are, therefore, important elements missing for MPs.

**26.** There is no mechanism by which the Members' contribution level and the pension scheme benefits can be assessed periodically to ensure that they are not allowed to get out of line with good current practice. At present the Trustees and individual MPs act as a pressure group lobbying Government from time to time and references are made to the Review Body only when issues remain unresolved. In the present reference, we recommend that the existing method for determining the balance between Member and Exchequer contributions should be retained. However, this does not answer the question of the appropriate level for the Members' contribution; nor does it have a direct bearing on the appropriate range and level of benefits to be provided by the scheme. We address these issues in the rest of our report. We have also been led to the view that it would be appropriate for the Review Body on Top Salaries to have a standing remit to look at the pension scheme periodically taking account of good modern practice. This would not necessarily lead to further improvements. Our reviews would be at the time of the Government Actuary's triennial valuations of the pension fund, a role which we consider he should continue to have. In our current report we have been able to take account of the Government Actuary's latest valuation of the parliamentary pension fund and the Government, the Trustees and the House will be able to consider our recommendations and the Government Actuary's conclusions at the same time. We consider that the complementary roles which we and the Government Actuary would have in future under our recommendations would work well on this or a similar basis.

**27. Recommendation 2.** We recommend that the Government Actuary should continue to be responsible for reviewing the financial position of the pension fund and for recommending the balance of cost contribution required from the Exchequer.

28. **Recommendation 3.** We recommend that the Review Body on Top Salaries should review the pension scheme on a regular basis at the time of the Government Actuary's triennial valuations.

## Members' Contribution

29. It is evident that there is a widespread feeling in the House that the existing Members' contribution rate of 9 per cent is unjustifiably high, and that this underlies the wish to adopt the fixed proportion approach for determining the relationship between the Exchequer and Member contributions. As discussed above, we consider, on other grounds, that the balance of cost method should be retained; but we also consider it appropriate to re-examine the current level of the Members' contribution within that financing system.

30. We recommended in 1983, in the light of circumstances at the time, that the contribution rate for MPs should be 8 per cent. When this was debated in the House it was resolved that MPs should contribute 9 per cent. In reaching this decision the House was persuaded to take account of a special improvement in MPs' pay which was agreed at the same time. Both increases in pay and contribution rate were staged, with the 9 per cent rate being paid from 1 January 1987. Since 1983 in the private sector there have been reductions in member contribution rates despite benefit improvements. We have therefore looked again at how the rate for MPs compares with the private sector, and also reassessed what comparison should be made with the public sector.

31. The pattern of members' contribution rates in the private and public sectors is shown in Table 4, based on data collected for the Government Actuary's latest survey of occupational pension schemes as at 1987. In the private sector three-quarters of pension scheme members were contributing less than 6 per cent of salary. We have been advised that some large schemes with contribution rates of 7 per cent and over have reduced these to 5 or 6 per cent since 1987.

32. In the public sector only one pension scheme member in 14 was contributing 7 per cent or more. This small number included firefighters and the police, but their working lives are fundamentally different from that of MPs in that they typically retire close to the age of 50, some 15 to 20 years earlier on average than MPs. This makes the pension schemes for these groups particularly valuable to the individuals concerned who can expect many years of pensionable retirement. The relatively fast rate of accrual for MPs adds to the cost of the pension scheme but, as explained above, there is an offset from the relatively late age of retirement and the correspondingly shorter period for which pensions will on average be paid.

*Table 4* Contribution rates paid by members of occupational pension schemes in the United Kingdom

Percentage of salary	Percentage of members	
	Private sector <sup>a</sup>	Public sector
No contribution	19	7
Under 2	1	14
2 and under 3	5	—
3 and under 4	8	—
4 and under 5	11	1
5 and under 6	31	18
6 and under 7	21	53
7 and over	4	7
	100	100

<sup>a</sup>Excluding contributions not based on a percentage of salary.

Source: The Government Actuary: based on data collected for "Occupational pension schemes 1987", the eighth survey by the Government Actuary (published 1991).

33. The Government Actuary's 1987 survey shows that about half of public sector pension scheme members paid a contribution in the range of 6 per cent and under 7 per cent, which the Government Actuary has told us meant in practice exactly 6 per cent in virtually all cases. When added to those in the contribution range below, some two-thirds of public sector scheme members paid not less than 5 per cent and not more than 6 per cent. In the light of this, we consider 6 per cent to be the appropriate rate for MPs and would expect it to remain unchanged for many years to come.

34. **Recommendation 4.** We recommend that the Members' contribution rate should be reduced from the existing rate of 9 per cent to 6 per cent of salary.

## Pension Benefits

35. At the same time as considering the financing arrangements for the parliamentary pension fund and the Members' contribution, we have examined the benefits provided by the scheme, including the accrual rate. We have done so in the light of the surplus which has built up in the pension fund in which Members' contributions have played a part. We have also had regard to current good practice generally.

**Accrual rate** 36. In his letter of 4 February, the Lord President referred to the question of the rate of pension accrual, expressed as a fraction of final salary for each year of service, which had been discussed by MPs in parliamentary debates on 17 January 1990 and 31 January 1991. He referred to the improvement from sixtieths to fiftieths in 1983 on our recommendation and asked for our views on whether a further improvement was justified and if so on the implications for contributions.

37. Individual MPs consider that a faster accrual rate than fiftieths would be justified by the fact that many MPs enter Parliament relatively late and that for some their stay may be short or interrupted. However, we consider that the existing rate remains appropriate. General improvements in preserved pension rights and pension "portability" should, with the existing rate of accrual, enable MPs in future to acquire a good overall pension, irrespective of the length of their parliamentary career. We have also taken into account the fact that the existing rate compares favourably with good general practice. According to the 1990 survey by the National Association of Pension Funds, 71 per cent of pension schemes have an accrual rate of sixtieths compared with the rate of fiftieths for MPs.

38. **Recommendation 5.** We recommend that the accrual rate should remain at a fiftieth of final salary for each year of service.

39. Although we do not accept the arguments for a further improvement in the accrual rate, we believe that part of the existing pension fund surplus should be used to increase the prospective pensions of MPs with service before 20 July 1983, the date from which the accrual rate of fiftieths was introduced. The faster rate has therefore applied only to the last eight years although some MPs took advantage of a scheme to purchase "added years" at a subsidised cost to enhance all their service to fiftieths thereby increasing their contributions even further. We consider it would now be appropriate to convert all service at sixtieths to fiftieths, for sitting MPs. Those who had voluntarily up-graded their pension in 1983 could be compensated with added years. Granting fiftieths would be fair to those who have contributed to the current pension fund surplus, including many older MPs who would be particularly appropriate beneficiaries. The administrative one-off task of implementing the change could, if necessary, be contracted out and the change once made would simplify the future calculation of pension rights.

40. **Recommendation 6.** We recommend that the existing accrual rate of fiftieths should be applied to all service for currently sitting MPs in respect of their future pension entitlement, with appropriate augmentation for those who have been making up the shortfall voluntarily.

## Spouses' pensions

41. We have referred to the submissions from the Trustees and individual MPs for improving widows' and widowers' pensions to two-thirds of the Member's pension. We do not consider this would be justified. The improvement from one-half to five-eighths awarded by the House represents an increase of a quarter in spouses' pensions and the resultant level compares very favourably with the position for occupational pension schemes generally, 80 per cent of which continue to have a spouses' pension of only half the member's pension.

42. **Recommendation 7.** We recommend that pensions for surviving spouses should not be improved further from five-eighths of the Member's pension.

## Other improvements

43. We have examined other, minor improvements in benefits for which there is a strong case on welfare grounds; the cost of these would be relatively small.

44. We consider that for the calculation of ill-health retirement pensions and spouses' pensions in the event of the death of a Member in service, years of potential pensionable employment to age 65 should be credited to replace the existing less favourable enhancement rules. The Member would have had an expectation of pensionable employment to retirement age either in Parliament or elsewhere and there is a trend towards the adoption of the potential employment approach. The 1990 survey by the National Association of Pension Funds found that this basis has been adopted in 58 per cent of pension schemes for spouses' pensions and in 35 per cent of schemes for ill-health retirement pensions (with others having insurance schemes which supplement salary during prolonged periods of disability or illness). The proposal would, at relatively low cost to the pension fund, correct the inadequacy of the existing low level of pensions for young MPs faced with retirement due to ill-health, or, if they die, for their surviving spouses, perhaps the group in greatest need of support, for whom there is much concern in the House. In addition to improving the existing provision greatly, the new basis of calculation would be simplified and MPs and their spouses would know in advance what their entitlement would be in the event of ill-health retirement or death. There would be consequential improvements for children.

45. **Recommendation 8.** We recommend the grant of full years of potential pensionable employment to age 65, to replace the existing complex enhancement rules, for the calculation of (i) ill-health retirement pensions, and (ii) spouses' pensions when MPs die in service.

46. We have also considered the position of the spouses of former MPs who die within a few years of starting to draw their parliamentary pension. According to the 1990 survey by the National Association of Pension Funds, at least 76 per cent of pension schemes have some form of five year guarantee that a member's personal pension benefits will be available to the spouse in the event of the member's death. Such an arrangement for MPs would, at relatively low cost, ensure that beneficiaries receive value for contributions paid.

47. **Recommendation 9.** We recommend in respect of former MPs who die during the first five years of retirement that a Member's pension should continue to be paid to the surviving spouse for the remainder of the five years after retirement, followed thereafter by the dependant's entitlement.

## Supplementary Pension Scheme

48. 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 extra contributions, of 9 per cent of their additional salary, 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 *pro rata* 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 by voluntary participation entitlement to a pension related to their earnings in office. We believe that the changes we have recommended in the parliamentary pension scheme should apply also to the supplementary pension scheme and we recommend accordingly.

49. **Recommendation 10.** 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.

## Conclusion

50. The cost of our recommendations, in respect of both the basic pension scheme for MPs and the supplementary scheme for Ministers and other paid office holders, falls into three parts. The reduction in the Members' contribution will transfer the cost of 3 per cent of salaries from the Members' share onto the Exchequer's residual contribution without effect on the total standard contribution required for the pension fund. The cost of applying the fiftieth accrual rate in respect of all service for currently sitting Members is a finite call on the pension fund of £3 million and has no effect on the total standard contribution. When this sum is deducted from the current pension fund surplus, however, it has the effect of increasing the Exchequer's residual contribution by 2 percentage points. The minor welfare improvements in other benefits—in respect of those who retire prematurely on ill-health grounds, who die in service or who die in the first five years of retirement—will add 0.3, 0.5 and 0.2 percentage points respectively to the Exchequer's residual contribution and increase the total standard contribution from 23 per cent to about 24 per cent. The overall effect of our recommendations will be to increase the Exchequer's residual contribution from 2.8 per cent of salary, which would have applied from April 1992, to 8.8 per cent, an increase of 6 percentage points or about £1.3 million per annum at current salary levels. The Exchequer's contribution would be less than one and a half times the new 6 per cent contribution for Members.

51. If our balanced package of recommendations is accepted we consider that the parliamentary pension scheme will, in the light of current good practice, be on a sound and appropriate basis. We have recommended that we should review the scheme regularly which we believe should improve MPs' confidence that it is kept up to date and that there continues to be regard to the special circumstances of parliamentary life.

### Summary of recommendations

52. A summary of our recommendations is as follows:

#### Recommendation 1

We recommend that the balance of cost method should be retained for determining the relationship between the Exchequer and Member contributions to the Parliamentary Contributory Pension Fund. (paragraph 24)

#### Recommendation 2

We recommend that the Government Actuary should continue to be responsible for reviewing the financial position of the pension fund and for recommending the balance of cost contribution required from the Exchequer. (paragraph 27)

#### Recommendation 3

We recommend that the Review Body on Top Salaries should review the pension scheme on a regular basis at the time of the Government Actuary's triennial valuations. (paragraph 28)

#### Recommendation 4

We recommend that the Members' contribution rate should be reduced from the existing rate of 9 per cent to 6 per cent of salary. (paragraph 34)

#### Recommendation 5

We recommend that the accrual rate should remain at a fiftieth of final salary for each year of service. (paragraph 38)

**Recommendation 6**

We recommend that the existing accrual rate of fiftieths should be applied to all service for currently sitting MPs in respect of their future pension entitlement, with appropriate augmentation for those who have been making up the shortfall voluntarily. (paragraph 40)

**Recommendation 7**

We recommend that pensions for surviving spouses should not be improved further from five-eighths of the Member's pension. (paragraph 42)

**Recommendation 8**

We recommend the grant of full years of potential pensionable employment to age 65, to replace the existing complex enhancement rules, for the calculation of (i) ill-health retirement pensions, and (ii) spouses' pensions when MPs die in service. (paragraph 45)

**Recommendation 9**

We recommend in respect of former MPs who die during the first five years of retirement that a Member's pension should continue to be paid to the surviving spouse for the remainder of the five years after retirement, followed thereafter by the dependant's entitlement. (paragraph 47)

**Recommendation 10**

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. (paragraph 49)

DAVID NICKSON  
TERENCE BECKETT  
LOUISE BOTTING  
ANN BURDUS  
PETER CAZALET  
CECIL CLOTHIER  
ALLAN GORMLY  
HUGH PIGOTT  
JEREMY POPE  
ANTHONY WILSON

OFFICE OF MANPOWER ECONOMICS  
14 June 1991

## Appendix A

### 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.
- No. 26: Review of Aspects of the Parliamentary Pension Scheme and Other Matters—Cm 362, May 1988

## Appendix B

### *Letter from the Lord President of the Council and Leader of the House of Commons*

PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

4 February 1991

Dear Sir David,

At the conclusion of the debate on Parliamentary Pensions held on 17 January 1990 my predecessor said that he would examine what Hon Members had said with a view to framing a future reference to the TSRB on Parliamentary Pensions. He subsequently held discussions with the Trustees of the Parliamentary Pension Scheme and others on both the current shape of the Scheme and the implementation of the recommendations made in the Review Body's last report (the 26th). You will have seen that I introduced a Bill to enact those recommendations and other matters this session and the Second Reading took place on 31 January. Because of acute Parliamentary concern about the state of the Fund, we have taken the unusual step of making some changes to the Parliamentary Contributory Pension Fund (PCPF), particularly on widows' benefit, without consulting you. Nonetheless, a number of issues remain on which we would welcome your guidance.

As debates in the House have made clear, the principal issue on which we need your advice is the question of the so called "balance of contributions", that is the balance between the Exchequer and Member contributions.

The PCPF is a final salary scheme with the Member contribution determined on the basis necessary to fund benefits over the long term, leaving aside surpluses and deficits. Under section 3 of the Parliamentary and other Pensions Act 1987, the Government Actuary's Department (GAD), on the basis of the cost of known benefits, estimates the total contributions necessary to fund it in the long term (the total standard contribution). Since the Member contribution is fixed this yields the Exchequer contribution as a residual. Taking account of the performance of the Fund, the GAD then adjusts the Exchequer contribution to produce the rate actually paid. The effect is that the Exchequer funds deficits but, where there is a surplus, enjoys a contributions holiday. The financing system is in other words symmetrical.

The Trustees of the PCPF, amongst others, take the view that the character of the scheme in which the Exchequer makes contributions in this way—taking the benefit of surpluses and making good any deficits—should be changed. Their preference would be for a system which held a fixed relationship between the Exchequer and Member contribution—say in the ratio of 5:3 or 60:40. To match the current system, such a system would need to be symmetrical with regard to both surpluses and deficits, implying that the Member and Exchequer contributions would move up or down together according to the state of the Fund.

We would therefore welcome your views on the short and long term financing arrangements of the scheme and in particular what role the GAD should play. I intend that your report be debated and that the eventual Government decisions on it should establish a definitive position on this issue for some considerable time to come.

On scheme benefits, as I have mentioned, we have decided to improve widows' and widowers' pensions from half rate to 5/8th rate in response to the Trustees' request for an increase to 2/3rds, in the light of the debate in the House on 17 January 1990. In consultation with the Trustees the Government concluded that this was the appropriate response to Members' immediate concerns over the surplus in the Fund and the level of Exchequer contributions. This should not influence you in determining the Government's policy towards the financing of the Fund nor to what

we consider the proper use of surpluses, generally. It was a specific action to meet a specific need. The Trustees have accepted this although they have made clear that a two-thirds widows' pension remains their objective. I have made it clear that—at any rate on the present system for financing the Scheme—when there is no longer any surplus in the Fund, Members' contributions would have to rise to meet the cost of this new level of benefit and any other improvements in benefits which might subsequently be recommended and accepted.

During the debates on 17 January 1990 and 31 January 1991 Members also raised the question of the accrual rate. You last looked at this in 1983 when you recommended an improvement in the accrual rate from 1/60ths to 1/50ths. I would be grateful for your views on whether a further improvement is justified and if so on the implications for contributions.

I ought also to record some feeling among the Trustees and other Members that you should take account of experience in other parliamentary schemes, both Commonwealth and European. Given the timescale, I made clear to the House on 31 January that full coverage of this aspect might well need to await a separate, subsequent report.

Finally, as you will see from the debate on 31 January, there is a considerable strength of feeling in the House that the arrangements for the Resettlement Grant and in particular the cut off at age 65, should be looked at again. I recognise, of course, that you examined this matter in your 26th Report, but the Government must obviously take very seriously an expression of such widespread concern from all sides of the House that the arguments should be re-examined. A particular point highlighted in the debate on 31 January is the unique circumstances which determine the precise timing of the end of a Parliament and therefore, for some Members, the end of a Parliamentary career. The Trustees have asked that the TSRB examine this matter seriously, with an open mind and in a way which ensures that the arguments can be put before you clearly and to the satisfaction of all concerned. I have assured them, and the House, that the Government will seek your views on that basis.

In view of the extent of concern in the House on this matter, I would be most grateful if you could report on it separately by the middle of April, so that the Government's response can be equally prompt.

As to the balance of contributions and other matters, I would like to consider and debate your report as soon as is practically possible so that any necessary changes can be implemented speedily. (As you will see, the Bill includes a power to make such changes by secondary legislation.) So it would be of great assistance if you could report on these matters as soon as possible after your separate report on the Resettlement Grant.

I would like to conclude by thanking the Review Body for its last report under the chairmanship of Lord Plowden and thank you in advance for agreeing to examine these complex matters. The Trustees of the Parliamentary Pensions Scheme will join me, I am sure, when I say that we are fortunate to being able to call on the Review Body's objectivity in assisting our consideration of these difficult issues.

JOHN MACGREGOR

Sir David Nickson, KBE, DL  
Chairman  
Top Salaries Review Body

## Appendix C

### Review of resettlement grants payable to Members of Parliament upon leaving the House

**Introduction** 1. In a letter dated 4 February 1991, the Lord President of the Council and Leader of the House invited us to review certain aspects of the parliamentary pension scheme and resettlement grants for MPs who leave the House at a general election. He asked us to re-examine at the earliest possible date the purpose and scope of resettlement grants in view of the widespread concern in the House about the operation of the eligibility rule under which MPs aged 65 or over do not qualify for grants. This part of our report therefore deals only with resettlement grants and we will report separately on parliamentary pensions.

**Our inquiries** 2. We invited written and oral evidence from the Government, the 1922 Committee, the Parliamentary Labour Party, the other main opposition parties and, although resettlement grants are not part of the parliamentary pension scheme, from the Trustees of the Parliamentary Contributory Pension Fund. We also received written evidence from some individual MPs. A list of those who gave evidence is at Annex A. In addition we collected information from abroad. We are grateful for the co-operation we have received.

**Existing arrangements** 3. The existing rules provide that Members can claim a resettlement grant when they have not attained the age of 65 immediately before a dissolution of Parliament and they do not stand for election, or they stand, whether in the same or a different constituency, and are not elected. The amount of grant is determined by age and length of service. The scale of payments, calculated in accordance with the following table, ranges from sums equivalent to 50 per cent to 100 per cent of the parliamentary salary which is currently £28,970.

*Table 1: Existing arrangements for resettlement grants for MPs aged under 65*  
*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 to 64	50	60	68	76	84	92	100

4. The arrangements are administered by the House of Commons' Fees Office. The grants are paid from the Vote for Members' salaries and allowances. They are free of income tax. The existing tax threshold for payments of this kind is £30,000; tax would be payable on the difference between a larger payment and that figure.

**Current issues** 5. We are aware of the strength of feeling in the House about the abrupt eligibility cut-off point for resettlement grants at age 65. This widespread concern was reflected in an Early Day Motion, No. 299, setting out proposals to extend resettlement grants to those aged 65 or over, which attracted the signatures of over 350 Members and is reproduced at Annex B. The point that MPs have no control over the precise timing of the end of a Parliament was highlighted in debate in the House on 31 January 1991, and reiterated in evidence to us. A Member's entitlement to a resettlement grant could be lost by a late, rather than an early,

calling of the next general election. The impact of the eligibility cut-off point on Members in their mid-sixties appeared arbitrary and capricious and was the cause of sharply different treatment between individuals. Members still below age 65 could receive a sum equivalent of up to 12 months' salary; those who had attained 65, and whose circumstances might otherwise have been identical, received nothing. It was emphasised to us in evidence that unlike individuals in most other occupations, MPs did not have a common expectation of the age at which they would retire. Many in their mid to late sixties wished to retire immediately upon leaving the House. Others might wish to seek alternative work.

6. It was, however, put to us in evidence that all MPs, irrespective of age, can face transitional expenses when their parliamentary career ceases, in addition to any costs for those seeking alternative employment. For example, individual MPs may need to move from the homes they have had to maintain in London and elsewhere, including their constituencies, and expenses will arise in their doing so. Other "disturbance" expenses may also arise upon ceasing to be an MP. These apply irrespective of age and arise from the special circumstances of parliamentary life. They should not therefore have to be met out of any pension provisions which may be payable.

7. In evidence, it was suggested that some MPs, perhaps of many years' standing, continued to play a full part in the House into their seventies. It was said that as a result, they might have had no opportunity to make financial provision for retirement other than their parliamentary pension and that their resettlement needs increased in proportion to time in the House. Accordingly it was argued that they should be entitled to a resettlement grant related solely to length of service. The contrary view was, however, expressed that it would be wrong to provide what might be construed as a financial inducement for MPs past the age of 70 to remain in the House.

8. We also considered the available evidence on practices in overseas parliaments. No clear pattern emerges. Whilst the most generous overseas scheme seems generally more favourable than the UK arrangements, at the other extreme a number of countries have no specific severance pay provisions at all, and there is a variety of arrangements in between. We are not able, therefore, to draw any clear general conclusions from this other, perhaps, than that countries have evolved such provisions as suit their own circumstances and requirements.

9. In summary, three main points come out of the evidence we have received and from what has been said in the House. First, uncertainty about the timing of general elections has an unpredictable and arbitrary impact upon entitlement under the scheme. Second, the scheme does not sufficiently recognise that MPs do not have a normal retirement age. Third, there are likely to be some transitional expenses when Members leave the House at any age.

#### **Possible options**

10. We accept in the light of all the evidence now available to us that the existing resettlement grant arrangements are not satisfactory. In considering the approach we should recommend for MPs aged 65 or more, we have looked with particular care at Early Day Motion 299. The Motion embodies two principles. Under part (a), a resettlement grant would be payable to MPs aged 65 or more leaving at a dissolution providing they had not attained the age of 65 at the end of the preceding Parliament. Accordingly, MPs becoming 65 during a Parliament would be entitled to a resettlement grant if they left at the end of that Parliament but not if they stayed on and left subsequently. However, part (b) of the Motion would override this in respect of MPs who had completed a total of 20 years' service, who would be eligible for a resettlement grant regardless of age.

11. We respect the intentions behind the Early Day Motion and accept that it would go some considerable way to easing the arbitrary effect of the existing age cut-off. However, we are concerned that it could have some further and perhaps unintended effects and lead to new anomalies. We understand that because the

Early Day Motion proposes amendments to previous resolutions of the House it would, as drafted, reintroduce for those aged 65 or over the lower rates for resettlement grants specified in a resolution of 4 March 1980. A further point is that there seems to be little justification for using a 20 year qualifying service criterion in the second part of the Motion. Since 1980, 15 years has been the length of service necessary to entitle a Member to a maximum resettlement grant. Whilst the proposals could be modified to meet these points, we are more concerned about the fact that there would still be an abrupt cut-off. It would be possible for individuals to experience a period of ineligibility for resettlement grants after they cease to qualify, by reason of age, under the first part of the Early Day Motion and before they could qualify, by reason of service, under the second part.

12. Accordingly we have examined other possible approaches. An alternative would be simply to remove the age cut-off and to pay grants on the same length of service basis as currently applies for MPs aged 55 to 64. However, after very careful consideration we do not believe there is any reasonable justification for changing the arrangements in this way. We also have doubts about the public acceptability of doing so. The view underlying part (b) of the Early Day Motion, and emphasised in evidence to us, that older Members with particularly long service should qualify for payment of a maximum resettlement grant may not have taken adequate account of the fact that they are likely to have accrued a substantial entitlement under the parliamentary pension scheme. Resettlement grants are not in our view a compensation for what might be regarded by some Members as inadequacies in their salaries or the pension scheme. We are, of course, due to report later on the pension scheme as part of the current reference to us.

13. Our preferred approach would amend the existing scheme according to the following principles which, in our view, take account of the public interest and the needs of MPs. First, most MPs, regardless of age and length of service, are likely to be faced with some costs on leaving Parliament, which arise from the change from the parliamentary way of life. Individual circumstances will vary and it would not be practicable or desirable to devise a scheme to match personal circumstances. We consider that all MPs leaving the House at the time of a general election should receive at least a flat rate resettlement grant equivalent to six months' pay. This would extend the existing minimum entitlement to MPs aged 65 and over and be in addition to any pension that may be payable to them. The concept of a "normal retirement age" is in any case less relevant to MPs than to many other groups and moreover the principle of flexible retirement is gaining acceptance generally. There may also be those who face retirement somewhat earlier than planned because of the date of a general election.

14. Second, the existing arrangements recognise that some additional financial assistance may be required for MPs leaving the House who need to re-establish themselves in alternative employment, but who may find particular difficulties in doing so, specifically the longer serving Members between 50 and 64; hence the stepped increases up to a maximum amount equivalent to one full year's pay. The extension of eligibility for the minimum resettlement grant to MPs aged 65 and over would reduce the existing sharp cut-off but replace it with another, albeit less sharp. In view of all the considerations involved we believe that the remaining cut-off at age 65 should be replaced by a downward taper reducing the maximum resettlement grant to a sum equivalent to six months' pay at age 70 in recognition of our view that beyond that age any compensation additional to the flat rate payment, and to any pension entitlements, would not be justified. Under our approach, as set out in the following table, MPs aged 65 and over would accordingly move from having no entitlement to a resettlement grant to being entitled to a payment ranging from a sum equivalent to 92 per cent down to 50 per cent of parliamentary annual salary.

15. The following table sets out the basis on which we consider payments should be made.

*Table 2: Revised arrangements for resettlement grants extending the existing arrangements for MPs aged under 65, which remain unchanged, to MPs aged 65 and over*

Amount payable as a percentage of annual salary

Age	Length of service (completed years)						15 or over
	Under 10	10	11	12	13	14	
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 to 64	50	60	68	76	84	92	100
65	50	58	65	72	78	85	92
66	50	56	62	67	73	78	84
67	50	54	58	63	67	72	76
68	50	52	55	58	62	65	68
69	50	50	52	54	56	58	60
70 and over	50	50	50	50	50	50	50

16. The approach can be regarded as comprising two elements. All Members would be eligible for a basic payment equivalent to 50 per cent of salary. In addition MPs aged 50 to 69 with 10 or more years' service would be eligible for a larger payment. The maximum payable would be equivalent to 100 per cent of salary for those MPs between the ages of 55 and 64 with 15 or more years' service. The tapering which we recommend should be introduced for MPs aged 65 and over is the reverse of that for MPs aged 54 and under. Abrupt changes in the level of entitlement would therefore be avoided.

17. As to MPs who leave the House voluntarily at times other than a general election, the evidence we received did not suggest that eligibility for a grant should be extended to include them. Resettlement grants are in some measure a compensation for the costs arising from the uncertainties surrounding parliamentary life, and in particular the unpredictable timing and outcome of a general election. MPs who choose to leave at other times, perhaps because of an offer of employment, will normally have had the opportunity to plan their departure and thus to minimise or avoid altogether such additional costs.

18. We have also considered whether the changes we recommend have altered the nature of the arrangements so that they should be given a new name. In our view, there is no case for doing so.

19. The overall cost of resettlement grants may vary widely from election to election, as it depends on the number of Members who retire or who are defeated at an election, as well as on their ages and length of service. At the 1987 general election, 44 of the 88 Members who retired and three of the 40 defeated Members received no resettlement grant because they were over 64. Under the terms of the proposed scheme they would have qualified for grants totalling approximately £560,000; at the 1991 salary rate, the additional cost would have been about £880,000. No reliable estimates can be made of the cost at future elections. However, at the extreme, if all current Members aged over 64 were to leave at the next election the aggregate cost, at the 1991 salary rate, of the proposed extension to the scheme could not exceed £1.5 million.

20. **Recommendation.** We recommend that the existing scale of payment for resettlement grants for Members who leave the House at a dissolution of Parliament should be amended by the adoption of the scale shown in the table at paragraph 15.

**REVIEW BODY ON TOP SALARIES**

10 April 1991

## Appendix C, Annex A

### List of those who gave evidence on resettlement grants

The Rt Hon Sir Bernard Braine, DL, MP

Sir Philip Goodhart, MP

Sir Anthony Grant, MP

Sir Peter Horder, DL, MP

— On behalf of the 1922  
Committee.

Sir Ian Lloyd, MP

The Rt Hon John MacGregor, OBE, MP

— Lord President of the Council  
and Leader of the House of  
Commons.

The Rt Hon Alfred Morris, MP

The Rt Hon Stanley Orme, MP

— Chairman of the Parliamentary  
Labour Party.

Sir David Price, DL, MP

### Other assistance

Dr Michael Rush, of Exeter University, collected information on equivalent arrangements for the members of parliaments in other countries.

## Appendix C, Annex B

### Early Day Motion, No 299

That, in the opinion of this House, paragraph (2) of the third Resolution of this House of 19th July 1983, which provides that resettlement grants for former Members should not be payable to a person who has attained the age of 65 years before the dissolution of the present or any future Parliament should no longer have effect, and that the following new provision should be made: (a) That the resettlement grant should not be payable, on the dissolution of the present or any future Parliament, to any person who had attained the age of 65 years at the dissolution of the preceding Parliament: but That (b) regardless of age, a person who has completed a total of 20 years' service as a Member of this House becomes eligible for the grant when it becomes payable under the first paragraph of the third Resolution of 19th July 1983, irrespective of whether that service was continuous, subject to paragraph (3) of the said Resolution.

16 January 1991

## Appendix D

### 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. Ministers and other paid office holders in both the House of Commons and the House of Lords may also contribute to a supplementary pension scheme.
- Pension Fund** 2. 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** 3. Members 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 4.4 per cent of MPs' salaries.
- Pensionable service** 4. 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** 5. A Member 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** 6. Pensions accrue at the rate of one sixtieth of the Member's salary over the last 12 months prior to the date of retirement for each year (*pro rata* for a part year) of reckonable service up to 19 July 1983; one fiftieth thereafter.
- Normal and earlier retirement** 7. 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 a Member may be awarded an ill-health retirement pension at any age.
  - (ii) An abated pension may be paid on retirement after age 50 and completion of not less than 15 years' service.
  - (iii) A full accrued pension may be paid from age 60 provided service as an MP is not less than 20 years' duration, from age 61 provided service is not less than 19 years' duration, and so on until age 64 and not less than 16 years' service. Service as a Member of the Parliament of the European Communities may count towards qualifying service to the extent that it is not concurrent with service as an MP.
- Pensions for widows, widowers and children** 8. Pensions are payable to the spouses of deceased MPs, subject to certain prescribed conditions, normally at the rate of five-eighths of the deceased's pension or notional pension. In addition a children's pension equal to a quarter is payable if there is one eligible child or three-eighths if there are two or more eligible children. 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** 9. A lump sum gratuity equal to the greater of two years' 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 nominee. In addition, the spouse'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** 10. 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** 11. The parliamentary pension scheme is contracted out of the state pension scheme.
- Increases in pension** 12. Adjustments to pensions arising from changes in the cost of living are made in accordance with the Pensions (Increase) Acts.

## Appendix E

### List of those who gave evidence on parliamentary pensions

Mr C D Daykin	—	Government Actuary
Mr J L G Dobson	—	Secretary, Parliamentary Contributory Pension Fund
Sir Peter Hordern, DL, MP	—	On behalf of the 1922 Committee
Sir Ian Lloyd, MP		
Sir Kenneth Lewis, DL		
The Rt Hon John MacGregor, OBE, MP	—	Lord President of the Council and Leader of the House of Commons
The Rt Hon Alfred Morris, MP	—	Chairman of the Trustees of the Parliamentary Contributory Pension Fund
The Rt Hon Stanley Orme, MP	—	Chairman of the Parliamentary Labour Party
Sir Peter Tapsell, MP		

### Other assistance

Government Actuary's Department

National Association of Pension Funds

Dr Michael Rush	—	Head of the Department of Politics, Exeter University
R Watson and Sons	—	Consulting actuaries

## Appendix F

### Total standard contribution and total actual contribution for the parliamentary pension fund following triennial valuations by the Government Actuary

Valuation year	Contributions:			Exchequer contribution as a multiple of Members' contribution
	Total	Members' (per cent of salary)	Exchequer	
<b>Standard contribution<sup>a</sup></b>				
1972	13.5	5	8.5	1.7
1975	15	5	10	2.0
1978	15	6	9	1.5
1981	18	6	12	2.0
1984	22	9	13	1.4
1987	20	9	11	1.2
1990	23	9	14	1.6
<b>Actual contribution<sup>b</sup></b>				
1972	20.4	5	15.4	3.1
1975	23.25	5	18.25	3.7
1978	22.2	6	16.2	2.7
1981	25.8	6	19.8	3.3
1984	27.0	9	18.0	2.0
1987	13.4	9	4.4	0.5
1990	11.8 <sup>c</sup>	9	2.8 <sup>c</sup>	0.3

a Total standard contribution: estimate by the Government Actuary of the contribution which if paid throughout a Member's service is assessed, taking account of prospective investment returns, to be sufficient on average to provide the benefits of the scheme.

b Total actual contribution: total contribution determined by the Government Actuary to take account of short term changes (particularly in investment returns) which result in 'deficits' or 'surpluses' in the pension fund. Changes in actual contributions have been implemented between one and three years after the valuation date and the 1984 changes were staged.

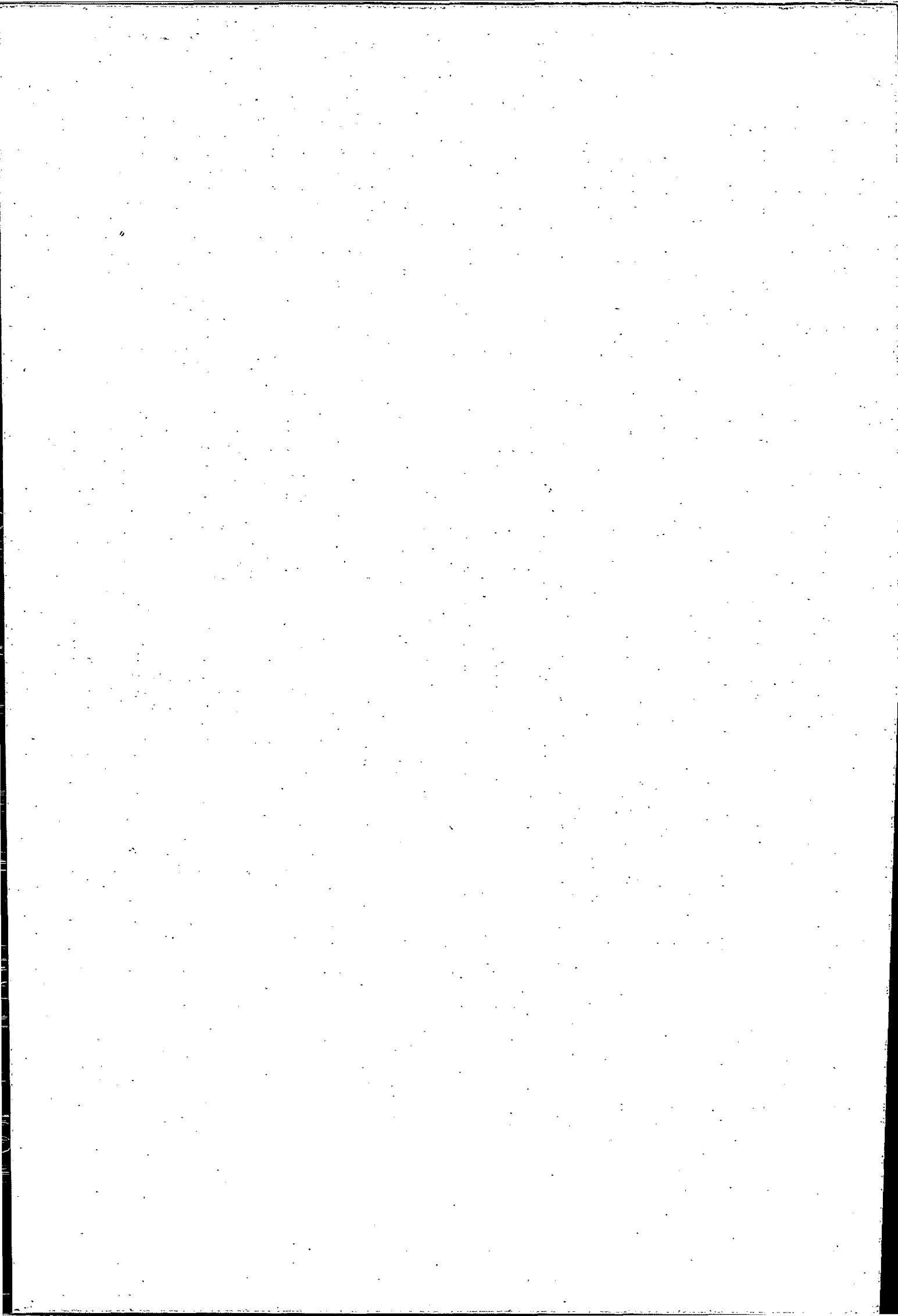
c These rates are due, in the absence of any parliamentary action to the contrary, to take effect from 1 April 1992.

Source: The Government Actuary.

ISBN 0-10-115762-2



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