

REVIEWING MPs' PAY & PENSIONS:

A CONSULTATION

OCTOBER 2012

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FOREWORD BY THE BOARD OF IPSA

This consultation marks the next phase in the work of IPSA: determining a new settlement for MPs' pay and pensions. This is an historic moment. Up until now, what an MP gets by way of pay and pension has been decided by MPs themselves. In a complete break with the past, IPSA, as an independent body, will now set the pay and pensions of MPs. We set out in this consultation the key issues and questions and will use the evidence we receive in response to assist us in developing the new remuneration package. We will present our proposals for this new remuneration package for further public consultation early next year.

Three years ago, in the wake of the expenses scandal of 2009, we were charged with introducing a new scheme for dealing with MPs' business costs and expenses. We said that we would be guided by a commitment to a system that is fair, workable and transparent. The Scheme we now have meets those criteria. Dealing with MPs' business costs and expenses is now a matter of routine. The rules are known and observed and the public can see exactly how MPs spend taxpayers' money.

Having made significant progress in a short time on that issue, our next task is to determine the package of remuneration that an MP should receive. The significance of this opportunity and the responsibility that goes with it cannot easily be overstated. The issues involved have been fought over for a very long time. IPSA now has an unprecedented opportunity to forge a new settlement between the taxpayer and the MP. This is an entirely separate exercise from that which addresses business costs and expenses.

Clearly, IPSA neither can nor should settle the issues on our own. We need to consider carefully all evidence and to hear views from as wide a range of people as is possible. In putting together this document we have had the benefit of the views of members of the public, commentators and MPs. We are most grateful because it has allowed us to produce a document that addresses the key issues and asks the relevant questions. Now we want to attract as rich a body of comment as possible and explore the issues more fully.

It is vitally important to our democracy that MPs are paid fairly and appropriately. We do not plan to act with unnecessary haste and will consult in two stages. This consultation is the first stage, in which we set out in some detail the relevant information and arguments and ask a number of questions. In the second stage, having analysed the responses, we will publish a paper early next year in which we shall consult on specific, detailed proposals.

It can be said that the current economic circumstances make it inappropriate to launch a conversation about MPs' pay and pensions. We understand this point. But, the history of the issue teaches us that there is never a good time. We have to address the issue and will do so with a view to reaching a settlement for MP and taxpayer alike which will be sustainable over time and will not be vulnerable to the politics of the day. Our aim, having heard your views, is to put in place a new settlement which will come into effect with the election of the new Parliament in 2015.

Our parliamentary democracy is of the highest importance. Parliament and parliamentarians deserve our respect. An element of that respect is having appropriate pay and pension arrangements. We look forward to receiving your views.

**Professor Sir Ian
Kennedy**

Sir Scott Baker

Jackie Ballard

Ken Olisa OBE

**Professor Isobel
Sharp CBE**

EXECUTIVE SUMMARY

1. This consultation is the first step in determining a new settlement for MPs' pay and pensions. Following IPSA's establishment of a robust and rigorous system for payment of MPs' business costs and expenses, Parliament has now given us the duty to set independently MPs' remuneration for the first time, ending the previous system of self-regulation. We set out in this consultation the evidence we have gathered so far through our engagement with the public, discussions with interested parties and desk research. We invite comments on the evidence and issues in this consultation and will use the responses to assist us in developing the new remuneration package for MPs, which we will present for further public consultation in the spring.
2. In Part A we set out the background to MPs' pay and pensions. The history of MPs' pay since it was introduced in 1911 is one of long periods of stagnation, followed by sharp upward corrections. Attempts have been made to link the pay level to various indices to smooth the trend, but with little enduring success. In recognition of the public sector pay freeze, pay has remained at £65,738 since April 2010.
3. Resettlement payments were first introduced in 1971 to help MPs defeated at elections into other jobs. Over the years the eligibility was expanded, until at the 2010 election all MPs who left the House were entitled to a payment of up to a year's salary. Pensions too have had significant increases since they were first introduced in the 1960s. The increase in accrual rates and other factors now make it one of the more expensive public service pension schemes.
4. In Part B we discuss options for the remuneration package to be introduced from 2015. We explore whether to link MPs' pay to that for other occupations, or to some measure of national average earnings. We also ask whether there should be a differential basis to MPs' pay, perhaps related to earnings from outside activities. We consider whether an indexation mechanism should be re-introduced, to help ensure that MPs' pay keeps pace with (for example) inflation. We go on to ask whether the current level and structure of additional payments to Select Committee Chairs and members of the Panel of Chairs should be maintained. Finally, we assess possible options for reform of the MPs' Pension Scheme, including a career average model (as will be introduced in the other public service schemes) and a defined contribution scheme, which is the most common pension arrangement in the UK's private sector.
5. Part C explores changes we might put in place *before* the next election and which will affect incumbent MPs. It asks whether MPs should have the same kind of small increases in pay that the rest of the public sector will receive once the current pay freeze comes to an end. It asks whether we should maintain the interim system of resettlement payments (only for MPs who are defeated at an election) and also examines what effect the potential changes to the constituency boundaries should have on our resettlement payment policy.

LIST OF QUESTIONS

Q1: Do you have any views on the guiding principles for our review? (Page 12)

Q2: Are there any factors which may affect the equality and diversity of the House of Commons which you think IPSA should take into account when reviewing MPs' pay and pensions? (Page 13)

Q3: Should there be a differential basis to MPs' pay? If so, on which basis should IPSA vary MPs' pay? (Page 44)

Q4: To what extent should IPSA consider the salary levels of other occupations when determining what MPs should be paid? What other occupations/legislators do you consider to be comparable to the role of MPs? (Page 47)

Q5: Should we link MPs' pay to a multiple of average earnings? If so, what would be an appropriate multiple to establish the level of pay? (Page 48)

Q6: Is the public service component of the job a requirement of the role or something which should attract a reward? (Page 49)

Q7: Are there any other issues that we should consider when determining MPs' pay? (Page 49)

Q8: Should MPs' pay be linked to an economic index or salary levels of comparable occupations so that, in the future, their pay would be revised each year between pay reviews? If so, to which index or occupations should MPs' pay be linked? (Page 55)

Q9: Should IPSA continue the current structure of additional pay (a flat-rate for Select Committee Chairs and incremental payments for Members of the Panel of Chairs based on length of service) to recognise Chairs' additional responsibilities? (Page 60)

Q10: Do you have any views on the guiding principles for reforming MPs' pensions? (Page 73)

Q11: Should the MPs' Pension Scheme be reformed using a Career Average Revalued Earnings (CARE) scheme in the same way as other public service schemes? Or should another model be adopted? (Page 80)

Q12: Should MPs be offered flexibility in their pension provision, such as reduced contributions in return for reduced benefits? (Page 81)

Q13: How should we determine the appropriate proportion of contributions from the MP and the taxpayer? (Page 82)

Q14: Do you believe that IPSA should follow the public sector pay policy and increase MPs' pay by one percent in 2013 and 2014? (Page 85)

Q15: Should MPs leaving Parliament after defeat at an election continue to receive resettlement payments? (Page 90)

Q16: Do you agree that in the event that the boundary changes are introduced before the general election due in 2015, we should extend the eligibility criteria for resettlement payments to include MPs who seek candidacy or election for another seat and are unsuccessful? (Page 92)

Q17: Do you believe that we should provide outplacement support in addition to the resettlement payment for eligible MPs? (Page 93)

PART A: BACKGROUND & EVIDENCE

In this part we set out the background and history of MPs' pay and pensions, the evidence we have gathered so far and our approach to the review.

CHAPTER 1: INTRODUCTION

The purpose of this consultation

1. Parliament has entrusted IPSA with an important job: for the first time to determine independently how much MPs should be paid and what their pensions should be. Hitherto MPs have determined their own remuneration: a situation that has attracted criticism for decades. Parliament has now decided that, as with business costs and expenses, an independent body should consult the public and other interested parties, weigh the evidence, make decisions and then implement those decisions, without undue influence from political parties, MPs or the Government.
2. Our powers to determine MPs' pay and pensions are set out in the Parliamentary Standards Act (2009) and the Constitutional Reform and Governance Act (2010). These provisions (commenced in May and October 2011 respectively) mirror our powers to deal with business costs and expenses in requiring us to consult key interested parties when making our decisions. Just as when we review the regime for business costs and expenses, we intend to involve the public in these decisions.
3. We are seeking responses from the public, MPs and other interested parties to help us formulate the right package of pay and pensions. Parliament is the pinnacle of our system of liberal democracy, holding the Government to account and examining proposed legislation which affects every citizen. As Bernard Crick wrote in his seminal *In Defence of Politics* (1973) "Politics deserves much praise...and its existence is a test of freedom". A political system which reflects and protects the values of society is to be valued and it is crucial that the MPs who sit at the centre of this system are rewarded appropriately and sufficiently, so that they may exercise their judgement without being beholden to vested interests.
4. This consultation is the first major step in the process of determining a new settlement for MPs' pay and pensions. In this document we set out the evidence we have gathered so far on five issues (basic pay, pay for Select Committee Chairs and members of the Panel of Chairs, indexation, resettlement payments and pensions), and we ask a series of questions, inviting all readers to give us their views. Throughout our consultation period

we will continue to talk to the public and to others through our website (www.parliamentarystandards.org.uk), Twitter (www.twitter.com/mppayandpension), the media and in person.

5. The questions that we pose, and indeed the document as a whole, are not designed to determine a specific figure for MPs' pay or pensions at this stage. As the consultation progresses we will gather and analyse the responses and the evidence we receive to create a new remuneration package for MPs. That package will then be presented for further public consultation on the details in the spring of 2013. The results of that consultation will be announced later in 2013 and, other things being equal, the new package will be introduced after the next general election, expected in 2015.

The Timing of our Review

6. Two and a half years since we began operations, we have put in place a robust and effective system for the payment of MPs' business costs and expenses. Our system provides appropriate support to MPs, ensures that public money is protected and has begun to restore the public's trust in the way MPs are supported.
7. The Constitutional Reform and Governance Act (2010) requires us to review MPs' pay in the first year of each Parliament. We have decided to press ahead with a review now, in advance of the new Parliament, with the aim of determining a new remuneration package during 2013. We are confident that this is the right approach, for the following reasons.
 - **The current situation is unsustainable.** Parliament has entrusted the review of these issues to an independent body for the first time, the previous system of indexation has fallen away and the pension scheme is becoming more expensive. An independent review of the remuneration package is essential, to prepare the ground for introduction of the reforms in the next Parliament.
 - **The remuneration package has not been reviewed since 2008/9** and MPs have had their pay frozen since 2010. Many in the public sector have faced the same challenges of meeting rising costs on frozen pay, but most will receive small increases in pay over the next two years. We need to examine whether MPs should receive the same kind of small increases.
 - **This is the mid-point in the electoral cycle.** Consulting now means that the views and evidence we receive and the media commentary on our conclusions are less likely to be affected by political positioning in the run-up to the general election. It also means that MPs and potential candidates will know what the total remuneration package is well before the election.

8. We are presented with a once-in-a-generation opportunity to develop a fair, workable and transparent solution. We are able, for the first time, to make decisions on these questions independently. So often in the past the Senior Salaries Review Body (SSRB) and others have recommended changes to the structure of pay or pensions and the Government of the day has rejected them because of public sector pay policy, or some other concern. We recognise those concerns and will take them into account, giving them due weight in our considerations. The public too will have concerns, perhaps coloured by the expenses scandal of 2009. As we have said before, we will not be swayed by the loudest arguments; we will be influenced by the strongest evidence and we will make our decisions independently.

The Scope of our Review

9. Our review and this consultation document are guided by our responsibilities as set out in the Parliamentary Standards Act (2009) and the Constitutional Reform and Governance Act (2010). Our statutory responsibilities specifically include the following.
 - Basic pay for MPs: the pay that every MP receives for being a Member of the House of Commons (s4 of the Parliamentary Standards Act).
 - Pay for Committee Chairs: an extra salary paid to those MPs who serve as Chairs of Select Committees or on the Panel of Chairs (s4A of the Parliamentary Standards Act).
 - Whether to introduce a mechanism or formula for indexing pay between determinations (s4A of the Parliamentary Standards Act).
 - The provision of resettlement payments for MPs leaving Parliament (s5 of the Parliamentary Standards Act).
 - The structure and level of pension for MPs (Schedule 6 of the Constitutional Reform and Governance Act).
10. Throughout our review we have considered and examined other topics, which, while lying outside our responsibilities, have a bearing and impact on consideration of our statutory functions. For example, while IPISA's focus is on setting the correct level of pay and pensions, the question of MPs' income from other activities has a direct bearing on perceptions about MPs' pay. More information on these issues can be found in Chapter 6 on pay.
11. There are some areas that are clearly outside our responsibility. This consultation document does not discuss pay or pensions for Ministers or the Leader of the

Opposition and the Opposition Whips (which are the responsibility of the Government); nor pay, pensions or allowances for Members of the House of Lords (which are the responsibility of the House of Lords).

12. We have also excluded from this consultation any question of MPs' business costs and expenses. Setting a scheme for these business costs and expenses and administering their payment is one of IPSA's core functions. Too often in the past, they have been conflated with MPs' pay. It remains in the public interest that the reward for doing the job (pay and pensions) should continue to be separate from the resources that are needed to perform it (business costs and expenses).

Our guiding principles and approach

13. Throughout this review, we will be guided by certain principles. These principles have influenced the way in which we have engaged with the public, gathered evidence, and developed this consultation. We will use the principles, along with the responses from interested parties and other evidence, to help us to develop the new remuneration package for MPs.

A. MPs should be fairly remunerated for the work they do and the total cost to the taxpayer should be affordable and fair.

Members of the House of Commons expect and deserve appropriate payment for the responsibility they bear and for the time, effort and contribution they make to our democracy. The public should be able to be assured that the system is fair, affordable and appropriate, which, in the longer term, should help to build public confidence.

B. Remuneration should be seen as a whole – with pay, pension and resettlement payments considered together for the first time.

For too long the separate elements of the package have been considered and amended in isolation, preventing a holistic view from being taken. We will review the package as a whole and allow MPs flexibility (where appropriate) to suit their circumstances.

C. It should be simple to explain, understand and administer.

Any new remuneration package must be easy to explain and understand. The current system has elements that are complex and expensive to administer. We will seek to create a single simple remuneration package, fit for the modern age.

D. It should be sustainable, without the need for major changes in the near future.

The system of remuneration has shown itself to be unnecessarily complex and unsustainable. The SSRB was required to make calculations of uplifts each year, the pension fund costs were increasing with each valuation and a substantial review was required. Now that our powers to determine pay and pensions have been commenced, we will put in place a system for the long term, which does not require regular intervention to keep it on track. We will continue to review the package in the first year of every Parliament.

E. As far as is practicable MPs' remuneration should be determined in the same way as that for other citizens.

This adapts one of the Fundamental Principles that has underpinned the *MPs' Scheme of Business Costs and Expenses*. We believe that in order for the public to have confidence in our system, any departures from common practice would need to be explicitly justified.

Q1: Do you have any views on the guiding principles for our review?

14. Throughout our review we have been informed by the work that has gone before. The SSRB and its predecessor organisations have carried out a series of investigations and reviews of MPs' pay and pensions in the past. In several of those reports, they have investigated linking MPs' remuneration to various private or public sector employees. We have not conducted the same kind of job evaluation exercises previously carried out but we have examined and updated the earlier evidence and consider whether to link MPs' remuneration to pay for other occupations in Chapter 6. This is all to help us to answer the core question we face: how much should an MP be paid?

Our approach to equality and diversity

15. The diversity of the House of Commons has been a much discussed topic amongst academics, constituents and MPs themselves, with many groups in favour of achieving a more diverse and representative Parliament. Constituents elect their representatives based on the candidates put forward by the political parties and as individuals they have little control over the diversity of Parliament as a whole.

16. As part of this review we will collect what evidence there is about the diversity of Parliament and, as is common practice in public consultations, we will conduct an Equality Impact Assessment (EIA). There is little evidence to date that levels of pay have had a direct impact on the diversity of Parliament, but as with our approach to business costs and expenses, we will seek to ensure that our proposals for MPs' pay and pensions do not unduly deter particular groups of people from standing for Parliament.

Q2: Are there any factors which may affect the equality and diversity of the House of Commons which you think IPSA should take into account when reviewing MPs' pay and pensions?

CHAPTER 2: THE BACKGROUND TO MPs' REMUNERATION

Introduction

17. There is a long history of discussion, analysis and reviews of MPs' pay. This chapter provides an overview of the current pay and pension arrangements for MPs and the history of each component. The key trends, issues and questions will then be explored in more detail in Part B.

All MPs currently receive a basic annual salary of £65,738, which is paid monthly in arrears. Like other employees, MPs pay income tax and national insurance through the PAYE system. MPs who take on extra responsibilities as Select Committee Chairs or Members of the Panel of Chairs receive extra payments of up to £14,582. Some MPs also become Ministers and receive extra payments from the Government. In total 169 MPs receive extra payments for being a Minister, Committee Chair, Speaker or Deputy Speaker, or Opposition Leader or Whip.

On election, MPs are entitled to join the MPs' Pension Scheme, which provides a pension from age 65 (or when the MP leaves Parliament, if later). MPs pay contributions to the pension scheme, depending on the rate at which they accrue benefits. MPs accruing at 1/40ths pay 13.85% of their gross pay. Those accruing at 1/50ths pay 9.75% of gross pay and those accruing at 1/60ths pay 7.75% of their gross pay.

Under our interim resettlement payment policy, if MPs leave Parliament voluntarily, they do not receive any payment. However, if they are defeated at an election, they are entitled to claim a resettlement payment of one month's salary for every year served, up to a maximum of six months. This is treated, for tax purposes, in the same way as a normal redundancy payment and no tax is payable on the first £30,000. This should be distinguished from the costs of winding up their Parliamentary functions (of up to £56,250), from which they do not personally benefit.

The history of MPs' pay

18. Prior to IPSA's being given responsibility to determine MPs' pay and pensions, pay was a matter for Parliament alone. Over the preceding few decades, there had been several reviews undertaken by the SSRB and others, which made recommendations to the House of Commons. MPs were then required to vote on recommendations as to pay increases each time. For a variety of reasons, MPs did not always decide to accept pay

increases in full, sometimes repeatedly deferring, declining or limiting them. This has meant that MPs' pay has often lagged behind that of other public sector employees and the rate of growth in national average earnings. This led to a situation where, when MPs did accept a pay rise (and there was no automatic annual mechanism for adjustments), they received a significant increase to catch up. These upward spikes in pay that followed a long period of stagnation were not always well understood or received by the wider public (please refer to the Data Annex for graphs demonstrating this trend in MPs' pay over the years).

19. The key events in the development of MPs' pay are outlined below. While MPs' business costs and expenses are not part of this current review, this table shows that there has been some overlap in the past.

Table 1: Key events relating to MPs' pay since 1911¹

Date	Key events	MPs' pay at the time
Prior to 1911	Prior to 1911, MPs were not paid but instead relied on their personal means or financial support from wealthy sponsors or organised groups.	£0
1911	MPs were first paid an allowance of £400 per annum, one-quarter of which was designed to cover expenses.	£400
1911-1964	No formal review process existed over the next 50 years, only ad-hoc adjustments. Pay was temporarily cut between 1931 to 1934 due to the economic crisis, then increased after that. From 1954 to 1957 a sessional allowance of £2 per day was paid to MPs.	
1964	The first external review of MPs' pay recommended that salaries be increased from £1,750 to £3,250 per annum (including expenses), which was implemented.	£3,250

¹ Information from a range of sources, primarily House of Commons Information Office, *Members' pay, pensions and allowances*, Factsheet M5 Members' series, revised July 2011, <http://www.parliament.uk/documents/commons-information-office/M05.pdf>, and House of Commons Library, *Members' pay and allowances – a brief history*, by Richard Kelly, 21 May 2009, <http://www.parliament.uk/briefing-papers/SN05075>.

1970	The newly established Review Body on Top Salaries (TSRB) became responsible for reviewing MPs' salaries, allowances and pensions.	
1971	TSRB's first review recommended a salary increase to £4,500, which was implemented by the House in January 1972. For the first time, a separate allowance was created to cover the costs and expenses incurred by MPs.	£4,500
1983	The TSRB recommended formally linking MPs' pay to other "comparable" jobs for the first time and a salary increase to £19,000. The House only accepted an increase to £18,500, implemented in stages (fully effective in January 1987) with automatic annual increases linked to civil service pay for the first time.	£15,308 (as at June 1983)
Mid 1980s-1996	No formal reviews of pay, only automatic annual salary increases based on civil service pay levels.	£18,500 (1987) to £34,085 (January 1996)
1996	The House agreed to the Senior Salaries Review Body's (SSRB) recommendation that salaries be increased to £43,000 with a formal link to increases in Senior Civil Service (SCS) pay and a regular review mechanism.	£43,000 (July 1996)
2007	The SSRB's final report on MPs' pay (published in January 2008) recommended a salary increase, a new method of uprating based on SCS pay, and an additional annual increase of £650 each year for the next three years. The House accepted a pay rise (in two stages) but rejected the other recommendations.	£61,820
2008	Sir John Baker (former chairman of the SSRB) recommended that pay be increased annually in line with the Public Sector Annual Earnings Index and an additional £650 annually for the next three years. However, the House instead set salaries at £63,291 with automatic annual salary increases determined by changes in the salaries of a basket of 15 groups of public service employees.	£63,291

2009 (April)	Annual salary increase of 2.33% (based on link to pay increases in the basket of comparable jobs)	£64,766
2009 (July)	The Parliamentary Standards Act 2009 created the Independent Parliamentary Standards Authority (IPSA) to oversee and regulate MPs' business costs and expenses and to pay the salaries of MPs.	
2010	The Constitutional Reform and Governance Act 2010 provided for IPSA to determine MPs' pay and pensions. These responsibilities were transferred to IPSA in May (pay) and October 2011 (pensions).	
2010 (April)	Annual salary increase of 1.5% (based on link to pay increases in the basket of comparable jobs)	£65,738
2011 (March)	MPs agreed to freeze pay for 2011/2012 at the 2010 level, in line with the pay freeze across the public sector	£65,738
2012 (February)	IPSA announced that MPs' pay would continue to be frozen in 2012/13 and that in due course there would be a public consultation on a 1% increase in the years 2013/14 and 2014/15 in line with public sector pay policy.	£65,738

20. In Chapter 6, we will examine a range of options for how MPs' pay could be set following our current review.

The history of indexation of MPs' pay

21. In the past, there have been several attempts to index MPs' pay, to keep it in line with changes in an external measure. This began in the 1980s, when MPs' pay was indexed at 89% of the maximum pay for Civil Service Grade 6. In 2007, the SSRB recommended a modified version of the formal link to the Senior Civil Service (SCS), despite expressing some broad concerns with indexation.² It recommended that MPs' pay be uprated each year by the average percentage increase in base salary for the SCS or, alternatively, Pay Band 1 of the SCS. However, this link became obsolete in the end due, in part, to changes in the SCS pay structure.

² *Review of Parliamentary Pay, Pensions and Allowances 2007*, Review Body on Senior Salaries (SSRB), January 2008.

22. In his 2008 review of parliamentary pay, Sir John Baker argued against linking MPs' pay to the SCS, because it was neither independent nor fair, and instead recommended linking MPs' pay increases each year to changes in the Public Sector Average Earnings Index.³
23. The House of Commons did not fully accept either the SSRB or Sir John Baker's recommendations. Instead, in July 2008, the House agreed with the Government's recommendation for MPs' salaries to increase each April based on the median of pay settlements in the previous year for a basket of 15 groups of public sector employees: senior military officers; holders of judicial office; very senior NHS managers; doctors and dentists; the Prison Service; NHS staff; school teachers; the Armed Forces; police officers; local government; non-Senior Civil Service staff in each of the Department for Work and Pensions, Her Majesty's Revenue and Customs, Ministry of Defence and the Home Office; and the Senior Civil Service. Some argued that this formula was neither transparent nor independent as the data on which it was based (the pay increases across the public sector basket) were not routinely made public and the Government controlled the pay levels for many of these occupations.
24. The House resolved that the SSRB was to be responsible for manually calculating the applicable increase each year and advising the House of Commons, in addition to conducting a full review in the first year of each new Parliament. Based on this indexation mechanism, MPs received annual increases of 2.33 percent in April 2009 and 1.5 percent in April 2010. The increase due from April 2011, according to the formula calculated by the SSRB, was 1 percent. However, in February 2011, the House of Commons agreed that MPs' salaries should be frozen at their April 2010 level and no increase was implemented. In May 2011, the responsibility for determining MPs' pay was formally transferred to IPSA. Accordingly, the Resolution of the House that had provided for this formal indexation mechanism ceased to apply. In 2012, IPSA confirmed that MPs' pay would continue to be frozen until at least 31 March 2013.
25. In Chapter 7, we will return to this subject to discuss whether we should reintroduce indexation and, if so, how this mechanism might work.

The history of additional pay for Chairs of Committees

26. Additional pay arrangements were introduced in the last decade to recognise the degree of responsibility and time commitment of Chairs of Select Committees and members of the Panel of Chairs (who chair Public Bill Committees and other general committees) in

³ Baker, Sir John, *Review of Parliamentary Pay and Pensions*, June 2008, p.14, <http://www.official-documents.gov.uk/document/cm74/7416/7416.pdf>. Baker recommended using the PSAEI three-monthly average published by ONS each January and applied in April. The PSAEI has since been replaced .

addition to their standard backbench duties as MPs. The supplements were also to encourage the emergence of a career structure as an alternative to frontbench roles.

27. Chairs of Select Committees began to receive an additional salary in 2003. Currently, this is an additional flat-rate sum of £14,582 per annum. Members of the Panel of Chairs began to receive an additional salary in 2005. This amount is incremental, depending on length of service on the Panel and is currently between £2,910 and £14,582 per annum. In recent times, these additional payments have been automatically increased each year in line with changes in MPs' basic salaries. Salaries for MPs (and, therefore, additional payments for Chairs) are frozen for 2012/2013. The responsibility to set pay for Select Committee Chairs and members of the Panel of Chairs was transferred to IPSA in May 2011.
28. In Chapter 8, we discuss the current arrangements in more detail, exploring whether they are working efficiently, and whether reform is necessary.

The history of resettlement payments

29. Resettlement payments (payments made to MPs leaving Parliament) were first introduced in 1971 after the Top Salaries Review Body recognised the need for a bridging arrangement to assist former MPs to establish themselves in a new career.⁴ They were regarded as akin to redundancy payments in the private sector and only paid to MPs who were defeated at an election.
30. Over the years, the eligibility and amount of the payments were extended, so that by the time of the 2010 general election, they were available to any MP who left the House of Commons for any reason and could be as much as 100% of an MP's annual salary. The payment was linked to the individual's age and the time served as an MP. As with normal redundancy payments, resettlement payments were exempt from tax up to the first £30,000.⁵
31. IPSA introduced an interim resettlement policy in April 2012 in advance of the wider review of MPs' pay and pensions. This policy was established following consultation with interested parties and the public, and mirrors the scheme available for members of the National Assembly for Wales. It provides one month's salary for every year of service in the House of Commons, up to a maximum of six months. As we did not consider it

⁴ House of Commons Information Office. *Members' Pay, Pensions and Allowances: Factsheet M5 Members Series*. May 2009, page 7, available at <http://www.parliament.uk/documents/commons-information-office/fymp/m05.pdf>

⁵ Data on the calculation of the grants payable in the previous Parliament and actual amounts paid at the 2001, 2005 and 2010 general elections are available in the Data Annex.

appropriate to fund MPs who decide to step down voluntarily, it is only available to an MP who stands for re-election to the same seat and is defeated.⁶

32. In Chapter 11, we look at possible options for a new resettlement policy.

The history of MPs' pensions

33. Pensions for MPs are a relatively new phenomenon, having only been introduced in 1964. Prior to this point, the role of an MP was considered so dissimilar to other occupations that it would not be possible to devise an appropriate pension scheme. The scheme set up in 1964 was unusual in that both benefits and contributions were fixed in money terms, rather than percentage terms. This was changed in 1972, when the pension scheme became a final salary pension scheme, as was provided by many employers at the time. This scheme was based on accruals at 1/60ths, with a contribution rate of 5% of an MP's salary. Over the next thirty years the ancillary benefits (such as widows' pensions) were amended and improved, and the accrual and contribution rates also increased. By the time of the election in 2010, MPs were paying 5.9% (for accrual at 1/60ths), 7.9% (for accrual at 1/50ths) or 11.9% (for accrual at 1/40ths). By this time, the Exchequer was paying 31% of pensionable pay as the taxpayer contribution.

34. Responsibility for setting the MPs' Pension Scheme was passed to IPSA by the Constitutional Reform and Governance Act (2010), and the relevant provisions were commenced in October 2011.

35. Soon after the 2010 election, Lord Hutton was asked by the Government to examine the future of public service pension schemes. He recommended that the final salary pension schemes should be replaced by schemes based on Career Average Revalued Earnings (CARE).⁷ The recommendations were accepted by the Government in 2011 and the first of a series of interim increases in members' contributions was implemented in April 2012. At the same time, as an interim measure we increased MPs' contribution rates by 1.85 percentage points.

36. In Chapter 9, we examine several possible models for pensions and the possible implications of each option.

⁶ For the report on the consultation and the interim resettlement payment policy please see the *Annual Review of the MPs' Scheme of Business Costs and Expenses 2012*, available on the IPSA website.

⁷ *Independent Public Service Pensions Commission: Final Report*, 10 March 2011, http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

CHAPTER 3: WHAT PEOPLE HAVE TOLD US SO FAR

Introduction

37. We are committed to seeking and taking account of the views of the public as part of this review of MPs' pay and pensions. In May 2012 we launched a number of initiatives to invite the views of members of the public through a variety of means, including independent public opinion research, media interviews, and an interactive website with a survey, polls, blogs, and a comments board. We also received many emails and letters from the public. We have also met and discussed our work with several academics active in this field, and co-hosted an expert seminar at the Institute for Government.
38. The feedback from this work has provided us with a valuable overview of the key issues and with suggestions for consideration as part of our review. Indeed, many of the ideas put forward in this consultation have come from members of the public. In what follows we present the range of activities which have been carried out over recent months and summarise the messages received.

Public opinion research

39. From March to June 2012 ComRes, the opinion research and polling organisation, conducted research on behalf of IPSA to explore the public's attitudes towards MPs' pay and pensions.⁸ The objective of the study was to determine how much people think MPs should be paid for doing their job. This high level objective was supported by seven supplementary objectives:
- to establish what people think of MPs;
 - to assess levels of familiarity with the role of an MP;
 - to gather baseline perceptions of the monetary value of MPs;
 - to understand how people decide the value of an MP;
 - to identify how people form their views about monetary value and MPs' worth in general;
 - to identify who should regulate MPs' pay and pensions; and
 - to find public consensus on what an MP's pay package should look like.

⁸ ComRes. *MPs' Pay and Pensions: A Public Verdict*. July 2012. The full version of the Report is available on our website: www.parliamentarystandards.org.uk.

40. In support of these objectives ComRes carried out two quantitative surveys of the public, four focus groups, and two citizens' juries. The key findings from this research are set out below:

- most people do not understand what MPs do, which fosters animosity and scepticism;
- negativity towards MPs is entrenched among small, vocal groups, but appears to be fragile among the wider public;
- people would like MPs to be treated like ordinary citizens with regards to their pay and pensions;
- most people think that an MP's current salary is broadly fair once they have reflected on the nature of the work and comparative pay scales of other public sector employees;
- people want to be assured that MPs are being held to account, but they do not necessarily want to know the details of how this is done;
- however, by their own admission, MPs' pay and pensions is not a subject that most people think about on a regular basis; and
- there is very little appetite for increasing the pay of MPs.⁹

Media Engagement

41. Through the spring and summer IPSA's Board members and officials carried out media engagements, primarily through local radio stations, to discuss MPs' pay and pensions. These engagements ranged from interviews, to explain our role and review of MPs' pay and pensions, to local radio phone-in shows to take questions and debate with members of the public.

42. Discussion was wide ranging and several interesting themes emerged. The most prevalent were:

- a lack of understanding and knowledge about what MPs spent their time doing, particularly in Westminster;
- a lack of importance ascribed to MPs' role as legislators;
- a view that when not visible in their constituencies MPs were not working;
- a similar spread of views on the level of MPs' pay as came through the focus groups and citizens' juries – i.e. a minority believed MPs were not paid enough, a

⁹ ComRes. *MPs' Pay and Pensions: A Public Verdict*. July 2012. The key findings are summarised at pages 9-10. The full report is available on IPSA's website: www.parliamentarystandards.org.uk.

larger minority believed they were paid too much and the remainder believed they were paid about the right amount; and

- listeners also demonstrated a willingness to consider paying MPs more if they were persuaded by evidence.

Online engagement

43. To support the evidence-gathering for this consultation we hosted interactive web pages which provided insight into how people think about MPs' pay and pensions. Our website ran a survey, polls and a series of blogs by high profile guest commentators who shared their thoughts and insights on what MPs should be paid, as well as contributions from senior figures at IPSA.

44. We received more than 3,150 responses to the survey and polls, comments, letters and emails, all of which we have analysed, and the results of which have directly informed this consultation. Not all commentators expressed a view on every topic but, of those who did, the broad opinions could be roughly summarised as follows.

- **Salary level:** Of those who expressed a view in our online survey, 54% said MPs should be paid less than currently (or nothing at all), while the remainder said MPs should be paid the same or more than currently. Specific salary figures suggested in online comments ranged from £0 to £200,000.
- **Comparisons with other occupations' salaries:** In our online survey 75% of those who expressed a view favoured looking at comparable salaries. Of those, most suggested comparisons with public servants or average wage measures (either paying MPs the same as the average wage or a multiple of it).
- **Performance-related pay:** In correspondence with IPSA and on our online forum many people favoured pay based on some sort of performance measure. Suggestions included performance appraisals, introducing an incremental pay scale, time-related pay (based on hours worked in the House and/or constituency), a scale based on election voting results and/or voter turnout, previous experience, or other measures of participation in the House. Many of these suggestions were linked to the broader discussion of whether people consider the role of an MP to be a full-time job.
- **Outside earnings:** Of those who expressed a view in our online survey, 54% thought earnings from outside jobs should be taken into account when setting pay.
- **Pensions:** Many correspondents felt that MPs should generally benefit less than they do under the current scheme, in terms of the taxpayers' contribution rates, benefits received and so on. In our online survey 68% of respondents said MPs' pensions should be the same as those provided by other public service pension

schemes, while 22% said they should have the same scheme as the general population.

- **Resettlement payments:** Most correspondents said that MPs should not be entitled to resettlement payments upon leaving Parliament.

45. More details of the responses received online are available in the Data Annex.

CHAPTER 4: THE ROLE OF THE MP

Introduction

46. It is not for IPSA to say what the role of an MP should be: that is for MPs and, ultimately, Parliament. But it is important that the debate on pay and pensions is informed by an understanding of what MPs do. We have found that views on the role of an MP differ. This is apparent from the work of previous committees considering the work and pay of MPs and from our own public opinion research (see Chapter 3).

47. In his 2010 article *What are MPs for?* former MP Tony Wright noted that the time to examine the role of MP had never been more pertinent, writing:

... it is clear that the question of the role of MPs – what they do, and what they are for – prompted by the expenses scandal has much to chew on... A window on their world has now been opened, and it is unlikely ever to be closed again. The question of what MPs are for has ceased to be a matter of interesting academic discussion and has become a matter of urgent political necessity.¹⁰

48. When employers are reviewing salary levels, the standard approach is to examine how much the employer can afford, the work that the employee is required to carry out, the responsibility that the position commands, and the authority that they wield. Their duties are often set out in a job description. But Members of Parliament have different ways of operating and approaching their parliamentary duties, so, how should one view the role of an MP?

Defining the role

49. There have been several attempts to define the role of MPs. As part of its 2001 study of pay and allowances, the SSRB published a generic job description in which it set out its view of MPs' principal accountabilities. It identified three broad headings for the nature and scope of an MP's duties.

- Participation in activities designed to assist in the passage of legislation and hold the Executive to account. This is seen as the 'core role' of an MP.

¹⁰ Wright, Tony. "What are MPs for?" *The Political Quarterly*. Vol 81, No 3. July-September 2010. Page 307.

- Work in and for the constituency. This is in part representative; in part promoting or defending the interests of the constituency as a whole; and in part it is designed to help individual constituents in difficulty.
- Work in support of the party to which the MP belongs, and on behalf of which he or she was elected.¹¹

50. More recently, in 2006 the Select Committee on the Modernisation of the House of Commons launched two inquiries to strengthen the role of the backbench MP and to make better use of non-legislative time. The Committee began by examining the role of the MP. It found that although there is no “neat” job description for an MP, “the job comprises a number of different but interconnected roles; sometimes mutually reinforcing and sometimes conflicting.”¹² The Committee identified the commonly recognised tasks for MPs to be:

- supporting their party in votes in Parliament (furnishing and maintaining the Government and Opposition);
- representing and furthering the interests of their constituency;
- representing individual constituents and taking up their problems and grievances;
- scrutinising and holding the Government to account and monitoring, stimulating and challenging the Executive;
- initiating, reviewing and amending legislation; and
- contributing to the development of policy whether in the Chamber, Committees or party structures and promoting public understanding of party policies.

51. Individual MPs have a clear view about how they should approach their Parliamentary duties. Winston Churchill, for example, declared that:

*The first duty of a Member of Parliament is to do what he thinks in his faithful and disinterested judgement is right and necessary for the honour and safety of Great Britain. His second duty is to his constituents, of whom he is the representative but not the delegate...It is only in the third place that his duty to party organization or programme takes rank. All these three loyalties should be observed, but there is no doubt of the order in which they stand under any healthy manifestation of democracy.*¹³

¹¹ Review Body on Senior Salaries. *Review of Parliamentary Pay and Allowances*. Volume 2. March 2001. Page 32. Available at http://www.ome.uk.com/Parliamentary_Pay_Allowances.aspx.

¹² Select Committee on the House of Commons. *Revitalising the Chamber: the Role of the Back Bench Member*. 13 June 2007. Page 3. Available at

<http://www.publications.parliament.uk/pa/cm200607/cmselect/cmmodern/337/337.pdf>

¹³ Parliamentary Affairs. *Duties of a Member of Parliament: Volume 8*. 1954-55. Page 302.

52. Other MPs emphasise constituency work. Tim Farron MP, for example, reported to the Hansard Society in 2006 that the “biggest chunk of time and biggest role in terms of importance is the constituency MP bit. I would be surprised if that takes up less than 90% of my time.”¹⁴

Public perceptions

53. In public opinion research carried out for IPSA, more than half of respondents (54%) did not have a good idea about what their local MPs do.¹⁵ Most people reported that although they know who their MP is, they are not actively engaged with them. They stated that they are “very unfamiliar” with MPs’ work in Westminster and a great many are unfamiliar with their constituency work as well. Because of the difficulties in defining the role of an MP, they felt it is difficult to judge how much MPs should be paid.¹⁶

54. Our focus groups and citizens’ juries found it difficult to describe the precise role of an MP, tending to be more familiar with MPs’ work at a local level rather than at Westminster. That said, only 40% of respondents said that they had a good understanding of their local MP’s work in the constituency.

Day-to-day activities

55. The reports by the SSRB and the Modernisation Committee provide an overview of the types of activities which MPs are expected to carry out. However, an understanding of how MPs approach each of these tasks and how they operate on a day-to-day basis is less clear. What do we know from MPs about how they carry out their role?

56. From our discussions with MPs, we know that when the House of Commons is sitting, the majority of non-London MPs travel down to London on a Sunday and spend Monday to Thursday in Westminster. They often return on Thursday evening to their constituency. In its 2011 report on new MPs, the Hansard Society found that MPs spend 63% of their working time in Westminster and 37% in their constituencies. This division of responsibilities between two locations is not clearly understood by some constituents, with one commenting to ComRes that “I don’t understand how you can justify running a constituency and then staying in London for four days.”¹⁷

¹⁴ Rosenblatt, Gemma. *A Year in the Life: From Member of the Public to Member of Parliament*. Hansard Society. 2006. Page 31.

¹⁵ ComRes. *MPs’ Pay and Pensions: A Public Verdict*. July 2012. Page 17.

¹⁶ ComRes. *MPs’ Pay and Pensions: A Public Verdict*. July 2012. Page 20. These findings were identified through qualitative focus groups and citizens’ juries in combination with a UK-wide survey of adults.

¹⁷ ComRes. *MPs’ Pay and Pensions: A Public Verdict*. July 2012. Page 24.

57. Even though they indicated that they spent more time in Westminster than in their constituency, new MPs told the Hansard Society that they spent the largest proportion of their time on constituency casework (28%). Constituency meetings and events took up 21% of their time and attending and debating in the Commons Chamber 21%.¹⁸
58. MPs have said that their constituency casework is growing, largely due to increases in the use of email (which means that they are readily contactable and are expected to respond quickly) and the effects of the current economic climate on public services. We have been told that constituents are now turning to MPs to provide assistance with issues which a local authority might have previously handled. Former MP Tony Wright identified this pattern in his 2010 article. He felt that MPs were increasingly being seen as a one-stop shop, writing:

*It used to be said... that MPs should not be turned into social workers, trying to sort out all the problems that constituents bring to them. This trend has certainly increased in recent years, with MPs becoming a sort of all-purpose local ombudsman.*¹⁹

59. Although he did not envisage this as a positive development, he recognised that there were advantages for both the MP and constituent involved:

*MPs can demand, and get, responses from bureaucracies in ways that the individual citizen cannot, right up to ministers if necessary. It clearly makes sense for citizens to use a service that is both free and, often, effective. For many MPs too this role is attractive: there is both job satisfaction and political benefit in trying to resolve the problems brought to them by constituents and in pursuing local issues. It also helps to ground MPs in the experience of their constituents.*²⁰

60. Some constituents recognise this beneficial relationship as well, with one commenting that “MPs can go above the local authority to push back down; it is like going to your boss’s boss if you’re having problems with your boss... They have a lot higher responsibility which is where their influence comes from.”²¹

61. Individual MPs prioritise the various elements of their role in different ways. The Hansard Society asked the 2010 intake of MPs to rank their activities by priority. Overall, the MPs questioned reported that they viewed national campaigning as the key priority, with commenting on political or constituency issues in the media, supporting the party, local campaigning, holding the government to account, scrutinising legislation, helping

¹⁸ Korris, Matt. *A Year in the Life: From Member of Public to Member of Parliament- interim briefing paper*. Hansard Society. June 2011. Page 1. Available at www.hansardsociety.org.uk.

¹⁹ Wright, Tony. “What are MPs for?” *The Political Quarterly*. Vol 81, No 3. July-September 2010. Page 304.

²⁰ Wright, Tony. “What are MPs for?” *The Political Quarterly*. Vol 81, No 3. July-September 2010. Page 304.

²¹ ComRes. *MPs’ Pay and Pensions: A Public Verdict*. July 2012. Page 25.

individual constituents, and championing their constituencies in Parliament all following in descending order of priority.²²

62. We would welcome contributions, particularly from MPs, about how the role of the MP should be addressed in the review of their remuneration.

Other duties

63. MPs take on a range of additional responsibilities in addition to their basic role as MP. These responsibilities include, but are not limited to, ministerial appointments, shadow government roles, and Chairs of Select Committees and/or the Panel of Chairs (discussed in Chapter 8). Some MPs also take up employment outside the House of Commons: these activities are discussed in Chapter 6.
64. Some MPs representing the party (or parties) in power are, of course, appointed to ministerial positions. In the past, MPs who were also ministers received a reduced MP's salary on the grounds that ministerial work detracted from an MP's parliamentary duties. The Boyle Committee Report of 1979, conducted by Lord Boyle of Handsworth, the Chairman of the TSRB, found that the average amount of time ministers had devoted to constituency business had decreased since 1975.²³ The Committee believed that the responsibilities of ministerial office impinged on an individual's ability to carry out the full range of parliamentary activities. Following the publication of this report, it was confirmed that the parliamentary salary of a Minister should not equal the full salary of a backbench MP to account for the reduction in parliamentary activities.²⁴
65. The Boyle Committee Report concluded that ministerial activities necessarily meant that MPs could spend less time on constituency business, but it did not examine the question of whether an MP's responsibility to carry out constituency work was reduced once he or she accepted a ministerial appointment. This issue was addressed in the SSRB's 1996 report which concluded that the parliamentary salary of a Minister should equal that of backbench MPs on the grounds that the responsibilities Ministers had to their constituents was the same as those owed by MPs without ministerial appointments. The House of Commons accepted this recommendation following a debate on 10 July 1996.²⁵

²² Korris, Matt. *A Year in the Life: From Member of Public to Member of Parliament- interim briefing paper*. Hansard Society. June 2011. Page 8.

²³ See Annex A to Cabinet Note C (80)33. *Top Salaries Review Body: Report Number 15 on the Pay of Members of Parliament and Ministers*. 27 June 1980. Available at <http://www.margaretthatcher.org/document/5EA9374882AF479C956217525B95D466.pdf>

²⁴ House of Commons Information Office. *Ministerial Salaries: Factsheet M5*. September 2010. Available at <http://www.parliament.uk/documents/commons-information-office/m06.pdf>.

²⁵ House of Commons Information Office. *Ministerial Salaries: Factsheet M5*. September 2010. Available at <http://www.parliament.uk/documents/commons-information-office/m06.pdf>.

66. The Hansard Society found that new MPs began their work as an MP expecting to work a 60 hour week, with an additional eight hours travel time. MPs responding to the first survey (in August 2010) said that they worked on average 67 hours a week plus 10 hours of travel. The average number of hours worked rose to 69 at the time of the second survey (March 2011). Those MPs without children stated that they were often working even more than this, averaging approximately 72 hours a week.²⁶
67. The Hansard Society reported the 2005 intake of new MPs were working 71 hours a week.²⁷ These figures are not dissimilar to those reported in previous studies of MPs' weekly hours. Research conducted by the SSRB in 1983 indicated that the average working week of a backbench MP was 62 hours.²⁸
68. Of course, hours worked is not a good criterion by which to judge reward, particularly for the self-employed or office holders such as MPs. It can be influenced by many factors, including inefficient use of time; and as discussed above, each MP has broad discretion over the way in which he or she interprets the role.

²⁶ Korris, Matt. *A Year in the Life: From Member of Public to Member of Parliament- interim briefing paper*. Hansard Society. June 2011. Available at www.hansardsociety.org.uk.

²⁷ Rosenblatt, G. *A Year in the Life: From Member of Public to Member of Parliament*. Hansard Society, 2006. Available at www.hansardsociety.org.uk.

²⁸ Radice, L., et al. *Members of Parliament: The Job of a Backbencher* 2nd Ed. Macmillan, 1990. Page 53.

CHAPTER 5: HOW DOES MPs' PAY COMPARE?

Introduction

69. Since the role of an MP is not similar to other occupations in the UK (except, to a limited extent, members of the devolved legislatures), it is relatively difficult to compare their remuneration meaningfully. Over the years, the pay review bodies and commentators have grappled with whether or not comparisons are appropriate or useful. In 1971 the TSRB described the role of an MP as “unique” but accepted that job comparisons could make a useful contribution in determining an appropriate salary.²⁹ More recently, the SSRB noted concerns about linking pay levels for MPs with another occupation, stating “MPs’ pay should not be set mechanistically but by a judgement based on a range of factors, not all of which can be readily quantified”.³⁰ As part of our initial process of public engagement on MPs’ pay, we have heard a wide range of ideas on which other occupations could be considered comparable to the role and responsibilities of an MP.
70. There are difficulties with making direct comparisons between the salaries of MPs and other occupations. It is difficult to compare differing levels of responsibility and decision-making, skills required, time commitments, perceptions of worth and social standing, and there are practical administrative issues of how best to evaluate which jobs are comparable, particularly when there is no job description. At this stage, we consider it useful to look at information on other occupations’ pay to provide a broad context for determining an appropriate salary. In this chapter, therefore, we look at what past reviews have suggested and provide information on the salary levels for other occupations and legislators in the UK and internationally. This information will be discussed further in Chapter 6, which looks at possible approaches to setting MPs’ pay, and Chapter 7, which discusses options for indexing MPs’ pay by linking it to “comparable” salaries. For full data, refer to the Data Annex.

Past reviews of MPs’ pay

71. In its review of parliamentary pay in 2004, the SSRB stated that “Parliamentary roles are of course unique in many respects, and there are no direct market comparators for the purpose of salary levels”.³¹ However, it commissioned PricewaterhouseCoopers (PwC) to

²⁹ The Top Salaries Review Body. *First Report: Ministers of the Crown and Members of Parliament*. 4836. December 1971. Para 35.

³⁰ *Review of Parliamentary Pay, Pensions and Allowances 2007*, Review Body on Senior Salaries (SSRB), January 2008, p.viii.

³¹ *Review of Parliamentary Pay and Allowances 2004*, Review Body on Senior Salaries (SSRB), October 2004, Volume 1, p 6.

carry out a job evaluation exercise to compare MPs' salaries with other jobs of comparable size, to serve as a "levels check" on salaries. It identified the following public and private sector comparators: SCS payband 1/1A, mid-sized council Divisional Director, Head Teacher (mid-sized secondary school), Police Chief Superintendent, Armed Forces (1 Star Officer), and Directors of subsidiary companies (turnover between £100m-£500m).

72. In 2007, the SSRB commissioned PwC again to benchmark MPs' salary against other occupations.³² This comparison exercise found that MPs were paid 86% of the average salary received by public sector comparators and 58% of the average salary of private sector comparators. However, the comparators suggested differed from those identified in the exercise in 2004, leading the SSRB to conclude that relative job weights had changed in the intervening period, making comparison difficult. For context, Table 2 below shows the 2007 and current basic annual salaries for the basket of public sector occupations identified by PwC, to provide a rough snapshot of how an MP's salary compares.

Table 2: Comparison of pay for public sector occupations and MPs

Comparators identified by PwC	Pay scale	Salaries of comparators (2007)³³	Salaries of comparators (current)
Head Teacher	Leadership Band L31 (national excluding London)	£71,244	£78,298 ³⁴
Police Chief Superintendent	Pay point 3	£68,961	£72,649 ³⁵
Senior Civil Service	Pay Band 1	£69,300	£88,000 ³⁶

³² *Report to the Review Body on Senior Salaries: Review of Parliamentary Pay and Allowances 2007*, PricewaterhouseCoopers. 31 March 2007; and *Review of Parliamentary Pay, Pensions and Allowances 2007*, Review Body on Senior Salaries (SSRB), January 2008, p.14.

³³ 2007 figures from *Report to the Review Body on Senior Salaries: Review of Parliamentary Pay and Allowances 2007*, PricewaterhouseCoopers. 31 March 2007

³⁴ As at 01/09/2011, from <https://www.education.gov.uk/publications/eOrderingDownload/DFE-00072-2011.pdf>

³⁵ As at 01/09/2010, from <http://www.lge.gov.uk/lge/aio/7163589>

³⁶ 2011 Pay Band 1 salary range from £58,200 and £117,800, with **midpoint** of £88,000 and median of £72,649, from <http://www.official-documents.gov.uk/document/cm82/8297/8297.pdf>.

County Council	2nd Tier	£72,000	N/A ³⁷
Armed Forces – Colonel	Levels 1-9	£69,189	£85,359 ³⁸
NHS - HR Director (Head of Service)	Band 8bcd (points 37-50)	£69,000	£63,032 ³⁹
Average salary of comparators		£69,949	£77,468 (excluding councils)
MPs' salary		£60,277	£65,738
MPs' salary as a % of comparator salaries		86%	85%

73. In 2008, Sir John Baker argued against linking MPs' pay to the basket of public sector comparators for various reasons, including that the Government was directly responsible for determining SCS pay "so MPs would effectively have been determining their own pay increases".⁴⁰ Instead, he recommended linking MPs' salaries to changes in the Public Sector Average Earnings Index each year.⁴¹ He argued this would be fair, easy to understand, less affected by disproportionate salary movements in one selected occupation and, by not being based on just a small selection of public sector roles, would remove any control from the Government over setting salaries. This is discussed further in Chapter 7.

³⁷ No robust national average salary data available, based on correspondence and meetings between IPSA and Local Government Association, July-August 2012.

³⁸ Based on midpoint of salary range from £81,310 to £89,408, figures from 01/04/2012, from http://www.ome.uk.com/AFPRB_Reports.aspx.

³⁹ The NHS pay bands used in the 2007 exercise may have either changed or the salary midpoint may have indeed decreased. Based on the midpoint of the salary range for pay bands 8bcd, points 37-50 of £45,254 to £80,810, as at 01/04/2012, from <http://www.nhs Careers.nhs.uk/explore-by-career/wider-healthcare-team/pay-for-wider-healthcare-team-staff/> and <http://www.nhs Careers.nhs.uk/working-in-the-nhs/pay-and-benefits/agenda-for-change-pay-rates/>

⁴⁰ Baker, Sir John, *Review of Parliamentary Pay and Pensions*, June 2008, p.13, <http://www.official-documents.gov.uk/document/cm74/7416/7416.pdf>

⁴¹ Baker, Sir John, *Review of Parliamentary Pay and Pensions*, June 2008, p.14, , <http://www.official-documents.gov.uk/document/cm74/7416/7416.pdf>. Baker recommended using the PSAEI three-monthly average published by ONS each January and applied in April. The PSAEI index has been replaced the Average Weekly Earnings (AWE) index.

Pay for other legislators in the UK

Devolved Legislatures

74. Salaries for members of the UK devolved legislatures (the National Assembly for Wales, the Scottish Parliament and the Northern Ireland Assembly) are lower than that of Westminster MPs, reflecting their differing responsibilities and powers.

Table 3: Current Salaries of Members of the Devolved Legislatures

Legislature	Annual Salary (£)
Member of the Northern Ireland Assembly (MLA)	43,101
Member of the National Assembly for Wales (AM)	53,852
Member of the Scottish Parliament (MSP)	57,520

75. Salaries for members of the National Assembly for Wales are determined by an Independent Remuneration Board and a four-year pay freeze has been in place since 2011. Salaries for members of the Northern Ireland Assembly are determined by the Independent Financial Review Panel and there is provision for an 11% pay rise to £48,000 in April 2013.⁴² The Scottish Parliament has made provision for the Scottish Parliamentary Corporate Body to review salaries at intervals but no review has been undertaken to date. Salaries for MSPs are indexed at 87.5% of the salary payable to Westminster MPs and so any revisions of the salaries for Westminster MPs' salaries would affect the salaries of MSPs unless the link was broken. MSPs' salaries are currently frozen until 31 March 2013.

Members of the House of Lords

76. Members of the House of Lords do not receive a salary but, instead, may claim a daily allowance of £300 (they may elect to claim a reduced daily allowance of £150) per sitting day, if they attend a sitting of the House and/or committee proceedings. Members do not pay tax on these allowances. Some Members of the Lords receive a salary because of the offices they hold (for example, the Chairman of Committees). These Members are not entitled to claim the allowances based on attendance.

⁴² Independent Financial Review Panel, press release, 14 March 2012, <http://ifrp.org.uk/2012/03/independent-financial-review-panel-launches-report/>

Pay for Members of the European Parliament (MEPs)

77. MEPs are paid €7,956.87 per month, which equates to an annual salary of €95,482. The amount received by UK MEPs is, therefore, currently equivalent to £75,114 per annum - approximately £9,000 more than Westminster MPs receive.⁴³ Prior to July 2009, each MEP's salary was paid by the country they represented at the same rate as a member of the lower house of their own national parliament (or equivalent). This led to significant differences in salaries between MEPs⁴⁴ and so it was agreed that all MEPs be paid an equal rate (paid directly from the EU budget), with effect from the new European Parliament in July 2009. MEPs' salary level is currently calculated at 38.5% of the basic salary of a judge at the European Court of Justice and is adjusted in line with that salary.

Pay for Members of other legislatures

78. As previous reviews of MPs' pay have concluded, it is not straight forward to make direct salary comparisons between different legislatures.⁴⁵ These issues are discussed further in Chapter 6. However, information about MPs' pay in other countries helps to provide a useful context when establishing an appropriate salary level for Westminster MPs.

Table 4: Comparison of Members' salaries in other legislatures⁴⁶

Legislature	Basic salary in £
Spain	44,618
Switzerland	51,515
France	52,028

⁴³ Calculation using standard exchange rate from www.xe.com, at 13 August 2012 (1 EUR = 0.786683 GBP).

⁴⁴ For example, Italian MEPs earned nearly four times what Spanish MEPs earned. Fabbrini, Sergio, "The Transformation of Italian Democracy," *Bulletin of Italian Politics*, Vol.1, No. 1, 2009, p.40: http://www.gla.ac.uk/media/media_126022_en.pdf.

⁴⁵ Concerns regarding comparisons include that each legislature has different roles of MPs, a range of electorate sizes, different parliamentary structures (some have two houses of parliament (bicameral) and others only one (unicameral)), voting systems (for example, some have mixed-member proportional representation whereby some MPs are elected on a party list and do not represent a constituency). There are also other differing factors such as taxation systems, allowance systems (whether expenses are covered by a separate allowance or come out of the MPs' salary), social security and pensions and timeframes (annual salaries or allowances based on attendance), as well as fluctuating exchange rates and purchasing power parities (a specially adjusted exchange rate to compare living standards between nations). For example, *Review of Parliamentary Pay, Pensions and Allowances 2007*, Review Body on Senior Salaries (SSRB), January 2008, p.15.

⁴⁶ IPSA research. Please refer to the Data Annex for sources and more detailed analysis. Based on gross basic annual salary before deduction and excluding other allowances, for a member in nearest equivalent position to a UK House of Commons MP without additional responsibilities. Currencies converted using www.xe.com (20 August 2012).

Sweden	65,134
UK (Westminster)	65,738
New Zealand	71,977
Germany	72,294
Republic of Ireland	74,657
Norway	74,937
Canada	98,134
Italy	110,352
United States	111,251
Australia	126,394
Japan	167,784
Average (Mean) (excluding UK)	86,237

Local Government pay

Local councils (England)

79. Some people have suggested we compare MPs and local government elected representatives, due to the apparent similarities in their roles and responsibilities. Councillors in England mostly only serve part-time and their basic salary averages £6,099 per annum, varying depending on the local authority. Council Leaders receive an additional special responsibility allowance which, on average, is £17,753 (ranging from £1,600 to £53,783).⁴⁷ Directly elected mayors have an average annual salary of approximately £62,411, with salary varying between £30,000 and £78,844.⁴⁸ There are currently 15 directly elected mayors in England (excluding the Mayor of London).

Greater London Authority

80. The Mayor of London is paid £143,911, the statutory Deputy Mayor £96,092, and elected members of the London Assembly £53,439.⁴⁹

⁴⁷ *Members' allowances survey 2008: Summary findings*, National Foundation for Educational Research (NFER) on behalf of Local Government Association (LGA) and Improvement and Development Agency (IDeA), 2008. The most recent survey of Members' allowances in local authorities in England prior to pay freeze.

⁴⁸ Data from individual council websites and reports, as no official current national average data available.

⁴⁹ Greater London Authority website, <http://www.london.gov.uk/who-runs-london/greater-london-authority/budget-and-strategic-plan/salaries>.

The views of MPs and the public on comparators

81. In 2007, PwC asked MPs to identify which occupations they considered comparable to MPs and suggestions included Head Teachers, Chief Executives of District Councils, senior police officers, GPs, civil servants and military officers, as well as private sector roles such as a junior partner of a law firm and manager of a small business.⁵⁰ In his 2008 report, Sir John Baker noted that: “Most MPs sense their pay has fallen in recent years relative to other public sector employees – they tend to quote Head Teachers, Chief Executives of Local Authorities, GPs and Police Superintendents as their ‘equals’ – though job evaluation carried out for the SSRB [by PwC] tends to suggest that some MPs overestimate their own job weight”.⁵¹ Other MPs have also identified particular Civil Service pay grades as an appropriate comparison. For some MPs these comparisons may have been based on pay levels, while for others it may be more about levels of responsibility, decision making, or perceptions of “social standing”.
82. During our initial engagement with the public, people suggested a wide range of occupations they consider “comparable” with the role of MPs. Commonly suggested comparators included public sector occupations (mostly head teachers, GPs, senior civil servants, members of the armed forces or police officers). Other suggestions included: middle managers (in both the public and private sectors); owners of small businesses (based on the rationale that MPs each have their own budget, staff, offices and workload); NHS Hospital Trust CEOs; senior social workers; senior probation officers; army privates; solicitors and barristers; and/or board-level directors of subsidiary companies. These findings, together with results of the public opinion research we commissioned, are discussed further in Chapter 3 and Chapter 6.
83. The table below provides a quick snapshot of average salaries for many of the “comparable” occupations suggested by MPs and the public (for additional comparators’ salaries, refer back to Table 2 above).

⁵⁰ *Report to the Review Body on Senior Salaries: Review of Parliamentary Pay and Allowances 2007*, PricewaterhouseCoopers (PwC), 31 March 2007, p.9.

⁵¹ Baker, Sir John, *Review of Parliamentary Pay and Pensions*, June 2008, p.6, <http://www.official-documents.gov.uk/document/cm74/7416/7416.pdf>.

Table 5: Salaries for “comparable” occupations suggested by MPs and the public

Suggested comparators	Salary range	Annual salary
Council Leader⁵²	£1,600 - £53,783	£17,753
Army Private⁵³	£17,514 - £28,940	£23,227
Senior Social Worker⁵⁴		£34,592
Lawyer (newly qualified)⁵⁵	£58,000 - £65,000	£61,500
Probation Officer (Chief Officer)⁵⁶	£42,435 - £86,914	£64,674
Managing director, small company⁵⁷		£70,000
General Practitioner (GP)⁵⁸	£63,232 - £138,320	£88,920
Managing director, medium-sized company⁵⁹		£100,000
Chief Executive of local authority⁶⁰	£97,818-£171,238	£134,528
CEO of NHS Hospital Trust⁶¹		£157,500

⁵² *Members’ allowances survey 2008: Summary findings*, National Foundation for Educational Research.

⁵³ Midpoint of levels 1-9, as at 01/04/2012, http://www.ome.uk.com/AFPRB_Reports.aspx

⁵⁴ Median of those employed under National Joint Council for Local Govt Services (excludes NHS staff), 2009, http://www.unison.org.uk/acrobat/NJCPayClaim_2012_13.pdf

⁵⁵ Midpoint salary in newly qualified lawyer in London excluding bonus for medium to top UK firms. *Newly Qualified Lawyers: Career Planning Guide, UK and US Firms*, Taylor Root: Global Legal Recruitment, p.8, <http://www.thesrgroup.com/SiteImages/Assets/7/9/TR-UK-NQ-guide.pdf>

⁵⁶ Midpoint of Band A SC7 Min - Band D SC79 Max, from 01/04/2010, [http://probationassociation.co.uk/media/9225/sccog%20handbook%20\(january%202011\).pdf](http://probationassociation.co.uk/media/9225/sccog%20handbook%20(january%202011).pdf).

⁵⁷ Average of Managing Directors of firm defined as turnover up to £5m a year, from IoD Directors’ Rewards Survey 2010 cited in Walker, Simon, *Broken Link: Restoring the connection between pay and performance*, IoD Big Picture, Summer 2012, <http://www.iod.com/Influencing/Big-Picture/Big-Picture-Summer-2012#article1>

⁵⁸ Midpoint of figures for both employed and self-employed, full time equivalent, annualised figures for 2011, <http://www.firstpracticemanagement.co.uk/images/uploads/Staff%20Survey%202011.pdf>

⁵⁹ Average of Managing Directors of medium firm defined as turnover up to £50m a year, from IoD Directors’ Rewards Survey 2010 cited in Walker, Simon, *Broken Link: Restoring the connection between pay and performance*, IoD Big Picture, Summer 2012, <http://www.iod.com/Influencing/Big-Picture/Big-Picture-Summer-2012#article1>

⁶⁰ Midpoint of most recent information for official average prescribed salary points for England and Wales, varies significantly across councils. *Joint Negotiating Committee for Local Authority Chief Executives – National Salary Framework and Conditions of Service Handbook*, updated September 2009, p.19.

⁶¹ Median salary for 2010-2011 in England, <http://www.incomesdata.co.uk/news/press-releases/NHS-boardroom-pay-2012.pdf>

PART B: A NEW REMUNERATION PACKAGE

This part sets out options for the new remuneration package for MPs, which we expect to introduce after the next election (expected in 2015).

CHAPTER 6: PAY FOR MPs

Introduction

84. The pay of Members of Parliament is a much-debated issue. MPs play a central role in our representative democracy, carrying out a range of duties including addressing issues for their constituents at both the local and national level, and scrutinising legislation that affects everyone. Their pay should reflect the responsibility, the effort and time that goes into fulfilling their parliamentary duties and their role as members of the sovereign legislative body of the United Kingdom. Their pay should constitute an explicit statement of the importance of their role and its place in our democracy. It should provide appropriate reward for their work and be fair and transparent. And MPs' pay should be acceptable to the public.
85. The Parliamentary Standards Act 2009 ("the Act") provides IPSA with the power to determine MPs' pay. This relates to their pay as a Member of the House of Commons, as well as any additional salary which they may receive as Select Committee Chairs and members of the Panel of Chairs (discussed in Chapter 8).⁶² IPSA also has the power to introduce a mechanism or formula to adjust salaries from time to time (see Chapter 7).⁶³ Within these bounds, the Act leaves IPSA with discretion over the way in which salaries are to be determined and what factors are to be taken into account.
86. The Act does not provide for us to determine any other aspect of an MP's terms and conditions, such as the hours worked, the duties they perform (or how they are performed), or whether MPs should be able to take outside employment. Those matters are for MPs, the political parties and, crucially, for the electorate to decide. However, our engagement with the public has shown that citizens are concerned about these issues and their perceptions shape the public debate on MPs' remuneration. It is right therefore that we consider, as part of this consultation, what impact these issues (and

⁶² Some MPs who take additional positions receive an additional salary which is set by the Government. These positions include Ministers, the Leader of the Opposition, the Opposition Chief Whip and Deputy Chief Whips.

⁶³ Sections 4 & 4A of the Parliamentary Standards Act 2009, as amended by the Constitutional Reform and Governance Act 2010.

others such as regional or performance related pay) should have on IPSA’s core responsibility: setting the level of pay for MPs.

Our approach to reviewing MPs’ pay

87. As we set out in Chapter 2, when MPs’ pay was first introduced in 1911, MPs were initially well paid in comparison to average earnings. In 1911 a £400 allowance placed MPs in an elite bracket, not far off six times average earnings. Since the Second World War, MPs’ pay has generally oscillated around a multiple of three times average earnings (see paragraphs 114-115). Some have argued for MPs’ pay to be adjusted back up to this multiple of three. This would produce a salary of approximately £69,000. Over the years pay has stagnated for significant periods and lost comparative value, as shown in the below graph.

Graph 1: MPs’ pay and UK Average Earnings 1911-2011⁶⁴



⁶⁴ This diagram, by IPSA, shows the relationship between MPs’ pay and UK average earnings in money of the day. We used MPs’ pay data from the House of Commons Library and average earnings from “Measuring Worth” (<http://www.measuringworth.com/index.php>). The way average earnings are measured has changed over time but Measuring Worth has adapted the figures to provide a consistent time series. The methodology is explained on their website. The money of the day figures were converted into real terms using a GDP deflator time series. 1911-54 from Measuring Worth, 1955-2011 from HM Treasury statistics.

88. Over time, expenses and costs were gradually separated from the salary payments, but political choices to hold back pay arguably led to some crossover between the two: a contributing factor in the expenses scandal. In recent years there have been several attempts to link MPs' pay to specific, comparable jobs in the public sector or elsewhere. These have produced a lot of useful data and information, but all attempts have foundered, as the links became outdated or unacceptable for the government of the day.
89. So what is our approach? As we noted in Chapter 4, employers setting salary levels would start with a few questions. How much can the employer afford? What type of work does the job entail? Is it benchmarked against other jobs in the sector and, if so, what are the market rates and how great is the supply of candidates? What is the nature of the market, and are the skills required specialised and in demand? Are there targets which should be met, and is performance-related pay appropriate?
90. But these questions only take us so far in setting pay for MPs. MPs are in an unusual position: they have no employer, no line manager and no performance standards. They are not employees: they are elected officers who have the discretion to manage their work individually, carrying out their parliamentary functions as they see fit. This means that the work that one MP carries out might be very different from that of a neighbouring MP. For example, whilst all MPs have a representative role, some may choose to focus on constituency-related affairs whilst others may spend more attention on campaigning or scrutinising legislation in Westminster.
91. To start our work we have gathered data and evidence from a variety of sources. We have updated the comparative work done by SSRB and others in the past, which provides us with useful context. We have asked the public what they think, through polls, citizens' juries and focus groups and we have examined what happens in other legislatures. This has provided us with plenty of ideas and evidence, which we consider in more detail in this chapter. Some of these ideas could be challenging to implement and we would need to consider carefully whether the benefits outweigh the risks and the costs.
92. Parliament has asked us to exercise our own judgement in determining MPs' pay. We will consider responses to the ideas and evidence in this chapter, coming to our own independent decision about the appropriate level of pay, bearing in mind the guiding principles set out in paragraph 13. We will then present the new package of pay and pensions for public consultation in the spring of 2013.

Differential pay

93. In recent months members of the public have made suggestions recommending that we introduce a range of pay levels for different MPs, based on different characteristics or work practices – in other words ‘differential pay.’ All MPs currently receive the same pay for the same job, regardless of how they choose to perform the job. Some MPs and commentators have suggested that this is an important constitutional principle – that in the House of Commons, all members are equal. But in practice, about a quarter of the House receives extra payments for roles derived from their status as MPs: mainly as ministers, or Chairs of Committees.
94. In this section we explore the various characteristics which, if it was thought appropriate to distinguish between MPs, could be used to do so, including performance-related pay; pay related to outside activities; regional pay; and pay based on characteristics such as previous salary, experience, or qualifications. It should be noted that we do not endorse these approaches. We are simply seeking views on whether, or to what extent, they should be considered when setting MPs’ pay.

Performance-related pay

95. It is common practice in many occupations for pay to be linked in some way to job responsibility, performance or workload. Some commentators and members of the public have therefore suggested that we should introduce performance-related pay for MPs. Performance-related pay for employees is usually tied to achieving specific targets, such as sales or casework, or delivery of projects. At present there are no performance measures for MPs, given the variety of roles that MPs undertake and their differing circumstances. In effect, an MP’s performance is judged at the time of election.
96. We do not have the powers to determine what MPs should do. Therefore we could not set performance measures or assess MPs against them. Operationally performance related pay would also be resource intensive and potentially complex. So, while we raise the issue because of the public’s interest in it, we do not propose to introduce performance-related pay for MPs. We do, however, welcome comments on the issue.

Pay related to outside activities

97. A number of MPs have income arising from work other than their role as an MP, earned through a variety of occupations and engagements, such as farming, journalism, the law, or company directorships. The House of Commons does not restrict MPs’ ability to earn outside income, but it does require them to declare any financial or non-financial benefit which might reasonably be thought by others to influence their actions, speeches or

votes in Parliament, or other actions taken in their capacity as an MP.⁶⁵ These are recorded in the Register of Members' Financial Interests. While there is a public perception that MPs' outside earnings are large, in practice the number of MPs who record significant amounts of income from outside activities is relatively small. *The Times* recently reported that out of 650 MPs, 68 recorded more than £10,000 of external income. And 18 recorded more than £100,000.⁶⁶ The vast majority of MPs (582 out of 650) recorded no outside income, or less than £10,000 for the year.

98. MPs and commentators have argued that the ability to earn income from outside activities allows MPs to retain links with the world outside Parliament and provides valuable experience which enriches their performance as an MP. Others have suggested that there should be two salary levels and that MPs should select between them: one for those who are "full-time MPs" and the other for MPs who receive income from outside employment. We invite views on this issue.

Regional pay

99. Recently the Government has been exploring the idea of introducing regional pay for civil servants and others working in the public sector, based on the average earnings and the economy in particular geographical areas. Those in favour of regional pay believe that pay for public servants, which is generally set at a national level, should be more in line with private sector businesses which set pay in accordance with their local labour market.

100. The pay of MPs does not currently reflect regional variations in, for example, the cost of living and working in a particular constituency, although there is one provision in the MPs' Scheme of Business Costs and Expenses, the London Area Living Payment, which allows London Area MPs to claim for a taxable benefit to assist with the additional costs of living in or of commuting regularly to the London Area.⁶⁷ This could be considered a form of London weighting, a common feature of remuneration in other jobs.

101. Given that most MPs live and work in London for a large part of the week when Parliament is sitting, the arguments advanced for regional pay may not apply.

⁶⁵ House of Commons. Standards and Financial Interests. Available at <http://www.parliament.uk/mps-lords-and-offices/standards-and-interests/>, Accessed 30 August 2012.

⁶⁶ *The Times*, 22 August 2012

⁶⁷ It is payable only to London Area MPs (who by definition are not entitled to Accommodation Expenditure) or to non-London MPs who do not claim Accommodation Expenditure. There are 97 London Area MPs, representing constituencies within a 20-mile radius of Westminster. The full list of constituencies can be found in Schedule Two to the *MPs' Scheme of Business Costs and Expenses*.

Pay based on other characteristics

102. A number of other criteria for differential pay have been proposed by commentators and the public. Some are set out below.

Pay based on time served in Parliament

103. Some have argued that longer-serving MPs should receive a higher salary than their newly elected colleagues, because of the experience that they bring to the role. This would not necessarily reward effective performance.

Pay based on previous salary

104. Some have suggested that newly-elected MPs should receive a similar salary to that which they received before becoming an MP. The argument for this is that more people from highly-paid professions would be attracted to standing as candidate for election. This in turn, it is argued, may bring wider experience and talent into Parliament. But linking pay to previous earnings could disadvantage some candidates. For example, some newly elected MPs may have been unemployed or had limited professional experience before entering Parliament. This may unfairly discriminate against some groups, such as people with caring responsibilities, who may have taken time away from full-time paid employment. A variant on this idea would be to reflect in an MP's pay any qualifications they may hold. Similar arguments would apply.

105. In considering any of these ideas for differentiation in MPs' pay, we would need to consider to what extent they meet the criteria set out in our Guiding Principles in paragraph 13, in particular the need for affordability and fairness.

Q3: Should there be a differential basis to MPs' pay? If so, on which basis should IPSA vary MPs' pay?

Pay based on comparisons with other occupations

106. Previous studies of MPs' pay have considered whether an MP's role could be compared to other occupations or legislators. Chapter 5 sets out information about how some other legislators are paid around the world. It also provides a summary of how the devolved legislatures remunerate their members, as well as the pay for local government and various occupations in the UK. In the past, similar information has been used by the SSRB to assess how MPs' pay compares, or should compare, with other occupations and legislators.

107. If comparators are to be used, how should we go about it? We could begin by looking at international comparators and examine the size of the relevant electorate. In

the UK, an MP has a constituency of between 55,077 and 110,924 electors. Congressmen and women in United States represent on average 711,000 people.⁶⁸ In Spain, Members of the Congress of Deputies represent approximately 259,000 people. Members of the Irish Dáil Éireann have approximately 60,000 constituents.⁶⁹ The range of responsibilities and the work which MPs or other legislators carry out also varies considerably given the different powers and duties of the legislatures.

108. In its 2007 study of MPs' pay, the SSRB concluded that, as regards international comparators, "precise comparisons are near impossible because the roles and job weights of members of parliament in different countries vary considerably depending on factors such as the number of voters represented, whether the system is unicameral or bicameral, and whether members represent a defined constituency or are elected on a party list." The report did go on to note, however, that with those caveats aside, they believed "it is clear that British MPs' salaries, pensions and expenses are at least on a par with their European counterparts."⁷⁰

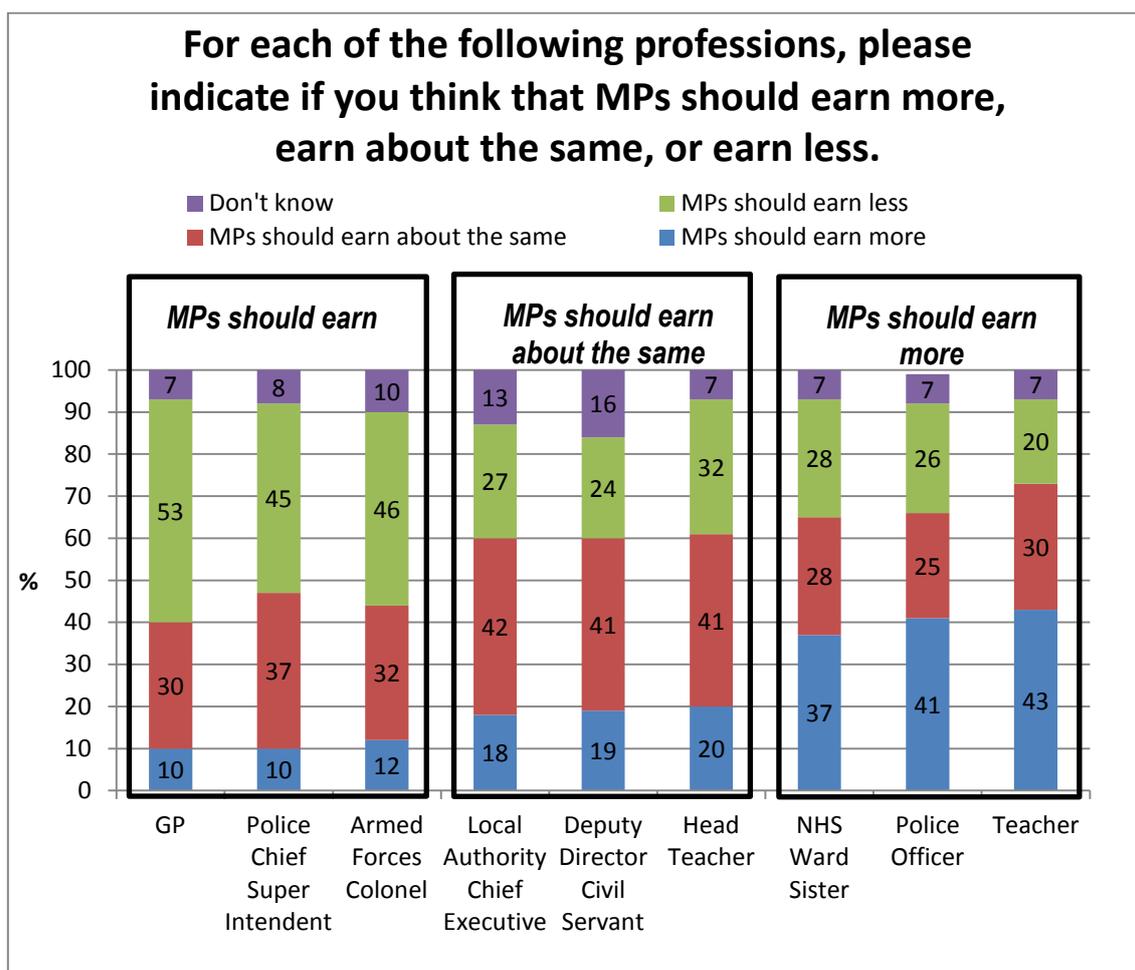
109. MPs' pay is often examined in the light of pay for those in other public sector occupations, such as GPs and Local Authority Leaders or Chief Executives. Our public opinion research asked people to reflect on salaries in focus groups and citizens' juries. The aim of the exercise was to draw out specific characteristics that people felt would command a high salary. The following chart shows those results.

⁶⁸ US Census Bureau, *Congressional Apportionment. 2010 Apportionment Results: 2010 Census*. May 2012. Available at http://www.census.gov/population/apportionment/data/2010_apportionment_results.html. Accessed 30 August 2012.

⁶⁹ Review Body on Senior Salaries. *Review of Parliamentary Pay, Pensions and Allowance 2007*. Appendix C. Page 75.

⁷⁰ Review Body on Senior Salaries. *Review of Parliamentary Pay, Pensions and Allowance 2007*. Page 15.

Chart 1: Public views on comparing MPs' pay to other occupations⁷¹



110. As part of our programme of public engagement we also ran an online survey. One of the questions asked about using international comparators to help decide MPs' pay and pensions in the UK. 73% of respondents said they were not a useful tool. We also asked whether comparisons with other occupations are useful and, if so, which ones. 31% of respondents felt that mid-level public sector jobs, such as senior nurses or deputy head teachers, were appropriate comparators. These were followed closely behind by 27% of respondents who said that senior public sector jobs (such as GPs, senior army officers or secondary school head teachers) were appropriate.

111. Comparators are undoubtedly useful for setting the context, but should they be used actually to determine pay? We do not rule it out, but we have our doubts. One concern is that the nature of the comparators can change. For example, in its 2007 report the SSRB found that the most appropriate comparators were not the same as those that it had identified in its 2004 report. The SSRB accounted for these differences by explaining that over time, the relative job weights of MPs and other occupations will change. As

⁷¹ ComRes. *MPs' pay and Pensions: A Public Verdict*. July 2012. Page 39.

shown in Chapter 5, there is a significant range of salaries for these occupations suggested by the public, which makes it difficult to make direct comparisons.

112. Some commentators have suggested that an MP's pay should reflect his or her standing in society and the people with whom he or she works. For example, in their constituencies, MPs often interact with Local Authority Chief Executives, Council Leaders, Police Chief Superintendents, head teachers and NHS senior executives. Basing MPs' pay on such comparators may be a way of reflecting the influence that they have in the local community. Equally, however, local church leaders often have influence within the community, but they are unlikely to receive a salary comparable to that of a Local Authority Chief Executive.
113. If comparisons with other occupations were going to be used to determine MPs' pay, should they be based on hours worked or responsibility? Hours worked is an inexact guide to productivity, as it may mask inefficiency, and responsibility can be measured in different ways. To take a popular example, members of the public are often asked, or have views on, whether GPs are a suitable comparator for determining MPs' pay. Some argue that the role of an MP is not comparable to that of a GP because GPs are perceived to make 'life and death' decisions, which they do not believe MPs make. Others have suggested that the responsibilities of MPs are, in fact, far greater than those of GPs because MPs are responsible for making the key overarching decisions on policy, such as how the NHS will be run.

Q4: To what extent should IPSA consider the salary levels of other occupations when determining what MPs should be paid? What other occupations/legislators do you consider to be comparable to the role of MPs?

Pay based on national average earnings

114. Some commentators have suggested that MPs' pay could be based on national average earnings. Those in favour of this approach view it as a way of creating a relationship between MPs' salaries and those of the average citizen: that it would encourage MPs to promote measures that benefit the national economy. Of course, there are a wide variety of views on what such measures should be. Nonetheless, the argument for the link could simply be that MPs share the experience of the average citizen as economic fortunes fluctuate.
115. Others, in turn, suggest that MPs' pay should be based on a multiple of average earnings, ranging from 1.5 to 4 times the national average earnings. National average

earnings in June 2012 were approximately £23,000.⁷² An MP's current pay of £65,738 is equivalent to between 2.5 and 2.9 times the level of national annual average earnings, depending on the choice of index.⁷³ This suggestion is explored further in Chapter 7, in relation to indexing pay between elections.

Graph 2: MPs' annual pay as a multiple of UK average earnings: 1911 - 2011⁷⁴



Q5. Should we link MPs' pay to a multiple of average earnings? If so, what would be an appropriate multiple to establish the level of pay?

⁷² Calculations based on the Average Weekly Earnings (AWE) index (which was £22,984 annually) using the most recent data (June 2012) for the whole economy (£442/week), multiplied by 52 weeks for annual figures. AWE data are based on average weekly regular pay for employees in Great Britain excluding bonuses. From *Labour Market Statistics, August 2012*, Office of National Statistics, 15 August 2012, http://www.ons.gov.uk/ons/dcp171778_273802.pdf.

⁷³ There are various measures for average earnings, these calculations are based on the Average Weekly Earnings and the Annual Survey of Hours and Earnings (ASHE). ASHE figure was £26,100, calculated using median gross annual earnings for full-time employees (including those whose pay was affected by absence) in 2011, from "Statistical bulletin: 2011 Annual Survey of Hours and Earnings (based on SOC 2010)", released 21 March 2012, <http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2011-provisional-results--soc-2010--stb---ashe-results-2011--soc-2010-.html>.

⁷⁴ The multiples graph above shows the relationship between MPs' pay and UK average earnings in money of the day.

The attraction of public service

116. Money, whether paid through salary or pension, is only part of the overall package of benefits from any occupation. Another key aspect is job satisfaction, which may come in many forms: pleasure from completing enjoyable tasks; from providing a service to others; from meeting customers and colleagues; or from “giving something back” and serving the public. The last of these motivations is often attributed to those in the public and third sectors, although it is equally applicable to many private sector roles.
117. One of the questions for IPSA is whether the dedication to public service shown by MPs through many aspects of their role should be regarded as a cost of being an MP (which should be rewarded), or a reward in itself. Should this factor have any bearing on the level of MPs’ pay?

Q6. Is the public service component of the job a requirement of the role or something which should attract a reward?

How should we determine MPs’ pay?

118. The discussion in this chapter shows that there is no hard and fast way of determining MPs’ pay. There are many interesting ideas, though all have flaws as well as potential benefits. In some cases we might be going beyond our remit if we were to apply them. In others we would need to be mindful of the complexity that they might introduce in what is capable of being a simple arrangement. Nonetheless, we invite views on all of the issues discussed.
119. As noted earlier in this chapter, attempts to apply a mechanistic approach to the determination of MPs’ pay through the use of comparators have faced many obstacles, including political pressures to avoid increases. While we do not rule out a further attempt to create such a mechanism, we are at present more inclined to favour an approach to determining the level of pay which takes account of the full range of evidence and arguments and uses our independent judgement to come to a conclusion.
120. On the other hand, there may be a case for using a simple formula to determine any changes to pay over the course of a Parliament. This is considered in the next chapter on indexation.

Q7. Are there any other issues that we should consider when determining MPs’ pay?

CHAPTER 7: INDEXATION OF MPs' PAY

Introduction

121. The Constitutional Reform and Governance Act 2010 requires us to review MPs' pay in the first year of each new Parliament. In this chapter, we examine whether we should reintroduce an indexation mechanism, which would operate in the years between these reviews.
122. Automatic annual pay increases are not common in modern employment practice in the UK. But MPs are in an unusual position: they are elected for five year terms and, unlike many private or public sector occupations, have no ability to increase their basic salary based on good performance or by taking on increased duties (apart from those MPs who take on other office, such as Select Committee Chairs. Furthermore, proposals to increase MPs' salaries tend to attract public criticism, which may have acted as something of a deterrent to regular increases. The resulting trend has been for MPs' pay to lose value over the years in real terms and in comparison with other occupations, before the decline is addressed through what has usually been a significant increase again following a pay review. Such increases can, of course, result in even greater criticism. This trend of stagnation followed by increase followed again by a period of stagnation can be seen in the graphs in the Data Annex.
123. One way to avoid this erratic trend in MPs' pay could be to re-introduce indexation. Indexation can be an efficient mechanism for keeping pay in line with trends elsewhere, removing the need for frequent intervention. MPs' pay has been indexed in the past to other occupations within the public service, but there are a number of other external measures that could be used, such as increases in another "comparable" occupation's salary, national average earnings, or a more general economic index. These are considered below.

Key considerations

124. As discussed in Chapter 2, there have been various attempts since the 1980s to index MPs' pay to external measures, such as Senior Civil Service pay levels and, most recently, the median of pay settlements in the previous year for a basket of 15 groups of public sector employees. While reintroducing indexation would be an effective way of keeping MPs' pay in line with relevant comparators, we recognise that no indexation mechanism will be perfect. For example, the most recent indexation mechanism was neither transparent nor easy to understand, it required a complex manual calculation every year and it was not seen as wholly independent, as the Government has a strong influence

over public sector pay. Indeed, in 2007, the SSRB had expressed broad concerns with indexation: "We consider indexation gives rise, over time, to problems of inflexibility in the face of changing responsibilities, relative job weights, and the varying nature of different labour markets, both creating anomalies and reducing the scope for dealing with them".⁷⁵

125. Sir John Baker set out the following key criteria that he considered should be applied to any indexation mechanism for MPs "it should be easy to understand, independent and authoritative, transparent and not capable of manipulation; sustainable over a number of Parliaments; based on pay comparators, and not price comparators; should reflect movements in earnings and not settlements; and should be linked in some form to the public sector".⁷⁶

126. There are other concerns about how indexation would work in practice and whether it would achieve desired outcomes. For example, some have argued that indexation is inappropriate because the expenditure of public money should be actively managed, rather than simply following an external measure. There is also concern about whether indexation could have unintended economic effects or create wider expectations about regular pay increases, as noted in paragraph 129 below. Furthermore, indexation is likely to be based on the previous year's data, resulting in a time lag between index movements and the adjustments to MPs' pay. This might create difficulties when automatic pay increases are applied at a time of economic austerity (for example when a public sector pay freeze is in operation), even if such increases were correctly calculated.

Linking to economic measures

127. There are three main economic measures which could be used as a link with MPs' salaries – price inflation, economic growth, or earnings.

Inflation

128. The two main inflation measures are the Consumer Price Index (CPI), which is the main domestic measure of consumer price inflation in the UK (excluding mortgage interest payments and some housing costs), and the Retail Price Index (RPI), which measures the change in the cost of a basket of retail goods and services (including mortgage payments). CPI tends to increase more slowly than RPI. Linking wages to CPI or RPI is designed to compensate for inflation by increasing wages as prices rise, thus maintaining people's purchasing power.

⁷⁵ *Review of Parliamentary Pay, Pensions and Allowances 2007*, Review Body on Senior Salaries (SSRB), January 2008

⁷⁶ Baker, Sir John, "Review of Parliamentary Pay and Pensions", June 2008, pp. 9-10.

129. There are arguments against linking MPs' salary to an inflation index. In particular, if MPs are seen to benefit from linking their pay to inflation, then other groups of employees may also seek similar arrangements for regular pay increases and this may make it more difficult to control inflation. Sir John Baker argued that "there is no case" for linking MPs' pay to inflation as "pay should be driven by issues such as job content, labour markets, recruitment and retention" instead.⁷⁷

Economic Growth

130. Gross Domestic Product (GDP) is a measure of all domestically produced goods and services in the economy within a given period. Growth in nominal GDP reflects both growth in output and price changes (inflation) and is a broader index than CPI or RPI, which only measure consumer prices. GDP per capita is an indicator of the national standard of living, while a GDP deflator is the movement in the prices of the goods and services in GDP and is therefore also broader than CPI or RPI. It is not common practice to link wages to growth in GDP, real (without price inflation) or nominal.

Earnings

131. As discussed in Chapter 6, there have been suggestions that we could base the level of MPs' pay on a multiple of national average earnings. We could then also index MPs' pay so that it would remain at the same multiple of national average earnings each year. At the moment, MPs' annual salary is approximately 2.5 to 2.9 times national annual average earnings, depending on which measure is used.⁷⁸

Examples of linking pay to economic measures

132. There are few examples in the UK of automatically increasing pay each year by linking it to economic measures such as inflation, but it is sometimes used to inform pay settlements. It is more common for benefits and pension payments and some examples are shown in the table below.

⁷⁷ Baker, Sir John, "Review of Parliamentary Pay and Pensions", June 2008, p.10.

⁷⁸ The Office of National Statistics. *Labour Market Statistics: August 2012*. Available at http://www.ons.gov.uk/ons/dcp171778_273802.pdf. Accessed 15 August 2012. £22,984 was calculated using the ONS figures for Average Weekly Earnings (AWE), based on average regular pay (excluding bonuses) in June 2012 of £442 per week, multiplied by 52 for an approximate annual figure.

Table 6: Examples of linking increases to economic measures

Group	Indexation Mechanism
Public sector pay review bodies (for example, for the NHS, Teacher or the Prison Service)	Most look at inflation and earnings indices and recent pay settlements for context when determining pay, but none has recently formally indexed pay.
Public sector and private sector pay settlements	Direct links to an economic index have only been used recently to inform multi-year pay deals or used if the increase in RPI is higher than prescribed pay increases. ⁷⁹
Welfare benefits	Linked to cost of living (to CPI and, before that, RPI) but there is no provision for decreases, only for increases.
Occupational pension schemes	Applicable pensions (in both the public and private sector) are adjusted based on CPI and, prior to that, RPI.

Linking to a percentile of earnings distribution

133. Some have suggested linking MPs' pay to a particular percentile of the earnings distribution for the general population, so that their salary level could be adjusted to always keep them at the same percentile. MPs' current salary places them at approximately the 95th percentile of the earnings distribution.⁸⁰ Others, however, have argued against such a link. Sir John Baker, in his 2008 review, said he saw "no logic in trying to fix MPs' position in the earnings distribution", stating that it may not be easily explained to the wider public, is not common practice and is not fair as salaries at the higher percentiles generally increase at a faster rate than the median salary.⁸¹

⁷⁹ Recent examples include Royal Mail, London Underground, Network Rail and the energy, engineering and transport sectors, from "Review of MPs' Pay and Pensions: Salary Indexation and Committee Chairs," DLA Piper, 24 August 2012, pp.7-9. Paper commissioned by IPSA.

⁸⁰ Percentile points based on total individual income before tax 2009-2010, from *Percentile points for total income before and after tax, 1992-93 to 2009-10*, http://www.hmrc.gov.uk/stats/income_distribution/3-1table-feb2012.pdf, published February 2012.

⁸¹ Baker, Sir John, *Review of Parliamentary Pay and Pensions*, June 2008, p.49.

Linking to salaries of other comparable occupations

134. As discussed in Chapter 6, some people suggest basing MPs' salaries on another comparable occupation or a group of occupations. Changes in MPs' salary could then be linked to pay increases in that comparator group to keep MPs' pay in line over time. Until recently, MPs' pay was linked to changes in a basket of 15 public sector occupations each year. However, as discussed in Chapter 5 and Chapter 6, it is difficult to make direct comparisons because MPs have an unusual role. Also, some linkages may not be truly independent, fair or transparent because the Government often directly controls public sector pay, comparators' salaries are not always made publicly available, and some groups' pay may increase disproportionately following negotiations or adjustments in pay scales. There are, however, a few examples of linking salaries for elected representatives to other occupations, both in the UK and elsewhere, as shown in the below table.

Table 7: Elected Representatives with Indexed Pay

Representative	Indexation Mechanism
Member of the Scottish Parliament (MSP)	Salary indexed at 87.5% of a Westminster MP's salary
Member of the European Parliament (MEP)	Indexed at 38.5% of a European Court judge's salary
Greater London Authority (GLA) Elected Members	Indexed to the same pay increase awarded to GLA staff. ⁸²
MPs in Portugal	Indexed at 50% of the salary of the President
MPs in Canada	Indexed to average wage increases in the private sector. ⁸³
MPs in Belgium	Indexed to the entry-level salary of a member of the highest administrative court. ⁸⁴

⁸² "Greater London Authority: Salaries and Pensions Determination 2009: Formal Determination by the Mayor and Assembly", 21 December 2009, <http://legacy.london.gov.uk/gla/docs/salaries-determination-dec09.pdf> (accessed 14 August 2012).

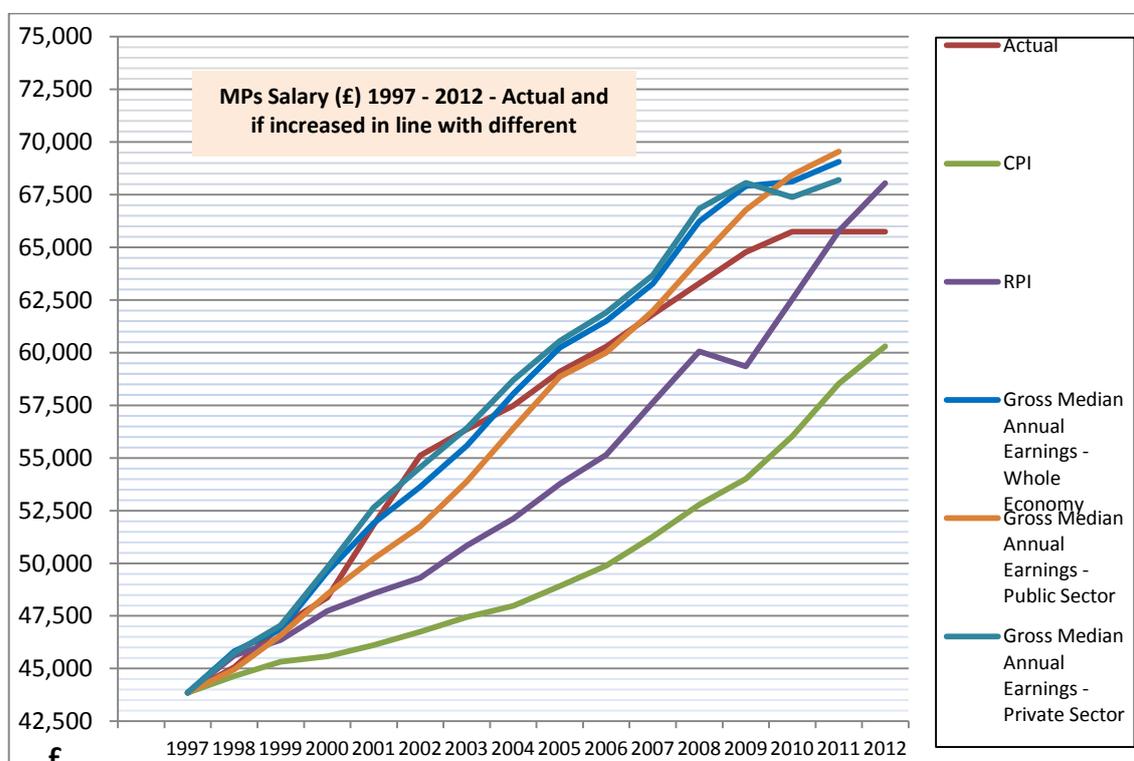
⁸³ "Indemnities, salaries and allowances: Members of the House of Commons", Parliament of Canada, <http://www.parl.gc.ca/Parlinfo/lists/Salaries.aspx?Menu=HOC-Politic&Section=03d93c58-f843-49b3-9653-84275c23f3fb&Year=2012> (accessed 20 August 2012).

⁸⁴ "Parliamentary allowances", Belgian Senate website, http://www.senate.be/english/federal_parliament_en.html#T.4.

What would indexation of MPs' pay mean in real terms?

135. It is useful to consider what would have happened if MPs' pay had been consistently linked to different indices over the last 15 or so years. The graph below shows the actual increase in MPs' pay compared with the changes in CPI, RPI and median gross annual earnings in the same period. In 1997 MPs' pay was £43,860 and by 2011 it had risen to its present level of £65,738, an increase of 49.9%. This increase is almost in line with the move in the RPI, but is significantly higher than the CPI and somewhat below changes in median gross annual earnings (please see the Data Annex for more graphs).

Graph 3: MPs' actual salary and salary if increased in line with different indices (shown in £), 1997-2012⁸⁵



Q8: Should MPs' pay be linked to an economic index or salary levels of comparable occupations so that, in the future, their pay would be revised each year between pay reviews? If so, to which index or occupations should MPs' pay be linked?

⁸⁵ "Review of MPs' Pay and Pensions: Salary Indexation and Committee Chairs," DLA Piper, 24 August 2012, Annex B. Paper commissioned by IPSA. Based on data from www.ons.gov.uk. 1997 was chosen as the starting date to exclude the 26 per cent catch-up increase in pay in 1996 and not all figures available yet for 2012. Annual earnings are based on ASHE 2011, pre-tax and including bonuses. These differences would be a little larger if 2012 RPI and CPI figures were taken, bearing in mind that MPs' pay has been frozen for two years.

CHAPTER 8: PAY FOR SELECT COMMITTEE CHAIRS AND MEMBERS OF THE PANEL OF CHAIRS

Introduction

136. In addition to their backbench work, some MPs also serve either as Chairs of Select Committees or as members of the Panel of Chairs. Select Committees examine and scrutinise policies, spending, administration and performance of the Government, providing an important check on the power of the executive. Some Select Committees cover particular government departments while others may have a role across departmental boundaries.⁸⁶ The Panel of Chairs (previously called Standing Committee Chairmen) is a different group whose members chair Public Bill Committees and other general committees. They may also chair debates in Westminster Hall and act as temporary chairs of Committees of the Whole House.
137. In most jobs in the wider economy, there is an opportunity for an employee to progress to a higher salary over time, either through moving up a pay range or being promoted to a more senior level. However, within Parliament, there is no such pay progression - all MPs receive a basic salary of £65,738, regardless of their length of service, previous experience, or performance. Taking on higher office is, therefore, the only way in which MPs may receive more pay.
138. In the last decade, arrangements were introduced to reward Chairs of Select Committees and members of the Panel of Chairs with additional pay, on top of their MP's salary. These arrangements were to recognise the additional commitment in terms of time and work made by these members over and above the standard backbench responsibilities of all MPs. The House also agreed that these roles would be promoted as an alternative career structure to ministerial office or other frontbench roles.
139. We have responsibility for determining MPs' salaries, including the additional salary paid to relevant Chairs of Select Committees and members of the Panel of Chairs.⁸⁷ However, we have no discretion over which Chairs should get the additional payment, nor can we determine the additional pay received by other office holders such as Ministers. We also do not have responsibility for determining whether other members of Committees should also receive additional pay, unless the House were to pass a resolution accordingly. We are not examining here whether pay for Select Committee Chairs and members of the Panel of Chairs has succeeded in providing an alternative

⁸⁶ "Select Committees", UK Parliament website, <http://www.parliament.uk/about/how/committees/select/>

⁸⁷ The Constitutional Reform and Governance Act 2010 provides for IPSA to determine the level of MPs' salary, and that IPSA "may provide for higher salaries to be payable to members while holding an office or position specified for this purpose by a resolution of the House".

career path. Instead, this chapter simply examines the current structure of additional payments and whether any change is necessary.

Current pay arrangements for Chairs

140. There are currently a total of 69 MPs who receive additional pay for their work as a Select Committee Chair⁸⁸ or member of the Panel of Chairs. The additional salary for both roles has until recently been increased annually to reflect any changes in MPs' basic salary.
141. Chairs of Select Committees receive an additional annual salary of £14,582 per year as a flat-rate, which equates to a total annual salary of £80,320, including the basic MP salary. There are currently 33 MPs who receive this additional salary for their work as a Select Committee Chair. Committees have a set minimum number of members, usually 11, led by a Chair who is now usually elected through a free and secret ballot by their fellow MPs. The time commitment of Chairs varies across committees, depending on the issues under discussion at any time, but it can be significant, with media appearances, meetings and visits. Chairs are often subject to a higher level of public scrutiny than backbenchers. The value of the additional pay for Select Committee chairs was originally set based on a job evaluation exercise commissioned by the SSRB, which concluded that on relative job weight, a total salary equivalent to that of a Parliamentary Under-secretary (a junior government minister) pro-rated for the lower time commitment by Select Committee Chairs, was appropriate.⁸⁹
142. The Panel of Chairs comprises the Chairman and two Deputy Chairmen of Ways and Means and a group of MPs (the minimum number being 10 members and no set maximum) nominated at the start of each session by the Speaker and who are assigned work when and if required. Their time commitment varies, depending on what is under consideration, but is arguably less than for Select Committee Chairs and not subject to the same level of public scrutiny. MPs who serve on the Panel of Chairs receive an additional salary, which varies according to length of service on the Panel and is set out in the table below.

⁸⁸ Members of Select Committees besides the Chair are not paid an additional salary.

⁸⁹ *Pay for Select Committee Chairmen in the House of Commons*, Review Body on Senior Salaries (SSRB), Report No. 55, Cm5673, July 2003, p.6.

Table 8: Incremental pay structure for Members of the Panel of Chairs:

Length of service	Additional annual salary	Total annual salary (including basic MP salary)	Number of MPs receiving this additional pay (as at 03/09/2012)
Less than one year	£2,910	£68,648	1
1-3 years	£8,166	£73,904	20
3-5 years	£11,082	£76,820	4
At least 5 years	£14,582	£80,320	11
			Total: 36

143. The value of the additional pay received by members of the Panel of Chairs was set so that the maximum amount paid was the same as for Select Committee Chairs and, if an MP is currently serving on both, they would only receive one additional salary. The rationale for incremental pay based on length of service was to provide an incentive for good candidates to develop into, and remain within, the position as they gained experience and took on more demanding duties.⁹⁰ At the time, the SSRB argued that pay should reflect levels of responsibility rather than workload and there should be no pay progression linked to length of service.⁹¹ However, we have received no strong evidence or comments indicating that the current arrangements are not working efficiently.

Views on current arrangements

144. Most Select Committee Chairs and members of the Panel of Chairs who have corresponded with us support maintaining the principle of an additional pay structure to reflect their additional level of responsibility, time commitment, and public scrutiny, as well as to ensure the recruitment and retention of candidates of an appropriate quality.⁹² Some consider their workload has increased significantly since pay levels were originally set and have suggested that pay levels should be more in line with other more highly-paid roles (for example, Deputy Speakers, a Committee Chairman in the House of Lords, a Government Whip, junior Minister or Ministers of State).⁹³ During our engagement with the public so far, we have not received any objections to paying

⁹⁰ Letters from former and current members of the Panel of Chairs to IPSA, August 2012.

⁹¹ Letters from former member of the Panel of Chairs to IPSA, 7 August 2012; and SSRB's 1996 Report, quoted in *Review of Parliamentary Pay, Pensions and Allowances 2007*, Review Body on Senior Salaries (SSRB), January 2008, p.7.

⁹² Correspondence between IPSA and various Committee Chairs and members of the Panel of Chairs, August-September 2012

⁹³ Review Body on Senior Salaries, *Pay for Select Committee Chairmen in the House of Commons*, Report No 55, Cm 5673, Appendix A, para 2.16; and correspondence between IPSA and various Committee Chairs, August-September 2012.

additional salary to Chairs. A few people suggested that other members of Committees could also possibly be paid, but this, as noted above, is not within our remit.⁹⁴

Market practice and benchmarks

145. It is common practice in other sectors to pay an additional amount to a Chair of a committee or Board. There is a distinction, though, between those who hold the position of Chair in addition to their main responsibility (as is the case for MPs) and those for whom the Chair is the main job. For example, in the NHS, Chairs of the Audit Committee in Strategic Health Authorities and Primary Care Trusts receive £5,254 in addition to their pay for their primary role as a Non-Executive Director.⁹⁵ There are examples of this additional fee within local government,⁹⁶ some devolved legislatures,⁹⁷ and several legislatures overseas.⁹⁸ The practice of paying Chairs an additional fee appears more common in the private sector. Traditionally, most quoted companies have had an Audit, a Nominations and a Remuneration Committee, and the Chairs of the Audit and Remuneration Committees generally receive an additional fee to recognise their additional responsibility.⁹⁹ It is not common practice within the private sector to have incremental pay scales based on length of service and, while pay scales are still common in the public sector, progressively they have been more linked to performance or the acquisition of skills rather than length of service.¹⁰⁰

The way forward

146. There are three main options for additional pay for Select Committee Chairs and members of the Panel of Chairs.

- Firstly, continue the current arrangement. This would mean that Select Committee Chairs would continue to receive an additional flat-rate salary and members of the Panel of Chairs would continue to receive an incremental salary based on length of service. We have not so far heard of strong opinions in favour of changing these arrangements.

⁹⁴ Comments from members of the public on IPSA's website, emails and letters, May-August 2012.

⁹⁵ "Review of MPs' Pay and Pensions: Salary Indexation and Committee Chairs," DLA Piper, 24 August 2012, p.20. Paper commissioned by IPSA.

⁹⁶ In England, local councillors who chair committees are paid an additional special responsibility allowance.

⁹⁷ The National Assembly for Wales and the Northern Ireland Assembly pay additional salaries for equivalent roles but the Scottish Parliament does not.

⁹⁸ IPSA research. Please refer to Chapter 5 and the Data Annex for more information.

⁹⁹ "Review of MPs' Pay and Pensions: Salary Indexation and Committee Chairs," DLA Piper, 24 August 2012, pp.22-23. Paper commissioned by IPSA.

¹⁰⁰ Advice from DLA Piper to IPSA via email, September 2012.

- Secondly, base payments on time commitments. This could be a fee-per-meeting arrangement, or a calculation of total time spent on work relating to being a Chair. This would recognise varied and fluctuating demands. However, some people work harder and/or more efficiently than others and some committees require more attendance time, without reflecting the importance of the work. This process would also require more administrative effort and may raise wider questions about whether other committee members should also be financially recognised for their time.
- Thirdly, base payments on responsibility. This could mean paying different amounts to Chairs based on the perceived importance of each committee due to factors such as profile, output and time commitments. However, the perceived importance is a subjective judgement and it is not clear who would make decisions on this. Also, this might not be fair as, for example, being appointed to one higher paid committee over another might be seen to grant financial favour. In 2007, PwC suggested differential pay between Chairs based on the relative job weights of each committee but the SSRB rejected this, stating that “in practice it is hard to identify and quantify the factors to justify differentials”.¹⁰¹

Q9: Should IPSA continue the current structure of additional pay (a flat-rate for Select Committee Chairs and incremental payments for Members of the Panel of Chairs based on length of service) to recognise Chairs’ additional responsibilities?

¹⁰¹ *Review of Parliamentary Pay, Pensions and Allowances 2007*, Review Body on Senior Salaries (SSRB), January 2008, p.20; and *Report to the Review Body on Senior Salaries: Review of Parliamentary Pay and Allowances 2007*, PricewaterhouseCoopers (PwC), 31 March 2007, p.17.

CHAPTER 9: MPs' PENSIONS

Introduction

147. The pensions landscape is changing for everyone. The pension scheme available to MPs has increased in cost in recent years and, in light of reforms to the public service schemes announced by the Government, now looks increasingly out of step with that available to other citizens. In considering reforms to the MPs' Pension Scheme we must pay due regard to the need to keep the promises regarding pensions made to existing and former MPs, and also for the future the need to ensure that the costs and risks of providing such an important and valuable benefit are borne appropriately between taxpayers and MPs. We examine below several possible models for pensions that we could introduce and an indication of their likely implications when applied to the current membership of the MPs' Pension Scheme.

Different types of pension scheme

148. There are three types of pension scheme that we will consider when looking at the future of pension provision for MPs: defined benefit, defined contribution and an alternative called cash balance. While there are other types of pension scheme, and indeed variants and hybrids within these types, for the purposes of simplicity we have focussed on these three main options in this consultation.

Defined Benefit - final salary

149. A defined benefit or DB scheme is a scheme in which the amount of pension at the member's retirement age is determined by a formula based on an accrual rate (a proportion of final earnings built up each year), pensionable service and pensionable salary. The most common type of DB scheme is called a final salary scheme, where the pension is based on a proportion (usually 1/60th or 1/80th) of the employee's salary at retirement, for each year they have worked.

Example 1

Audrey is a member of her employer's final salary scheme, which accrues at a rate of 1/60th. She retires after 40 years' service on a salary of £40,000. Her annual pension is worked out as 40 times 1/60th of her final salary.

$$40 \times 1/60th \times £40,000 = £26,666$$

150. DB schemes tend to provide the highest level of defined pension for the member, based on a full career, as well as a high level of certainty that the promised pension will be paid out, as the risk of meeting this promise lies with the employer. Additionally, once in payment the pension is usually protected to some extent from the effects of price increases by being increased each year in line with a chosen inflationary index. This makes them highly valued by employees. However, final salary schemes have been criticised as disproportionately benefiting those employees whose pay rises sharply in their final year(s) of work, over employees who receive (and pay contributions on) more uniform increases throughout their career.

Example 2

Barry works alongside Audrey and earns the same amount: £40,000. He has also worked for the company for 40 years and is approaching retirement. However, one year before retirement, Barry is promoted to a post which pays £45,000. His pension is based on the final, higher salary, which gives him an additional £3,334 pension each year.

$$40 \times 1/60\text{th} \times £45,000 = £30,000$$

151. Employers (outside the public sector) pay for DB schemes by investing pension contributions (from both the employer and the employee) in the financial markets. The amount to be invested is calculated by the appointed actuary to the scheme and, if the actuarial assumptions behind these calculations are correct, the investments will, over time, provide sufficient income for the pensions to be paid. However, there is a risk that these investments will not deliver the expected income - this is called the investment risk. Because the amount of pension is promised to the member, where this happens, the employer promises to make up any shortfall in the investment income (although this promise is dependent on the financial strength of the employer).

152. The scheme's actuary also calculates how long, on average, the employees are expected to live after retirement and therefore how long the pensions will need to be paid. These calculations are based on data on the age of death of the population in general, and the members in particular. Obviously, if the members are expected to live for a long period after retirement, the pensions will need to be paid for longer, and more money will need to be invested. However, there is again a risk that the calculations and the assumptions on which they are based will prove to be incorrect, because the members live for longer than expected - this is called the longevity risk. In these cases, as the pension scheme promises to pay members their pension until they die, regardless of how long they live, additional contributions may be required from the employer.

153. Therefore, as can be seen, all the principal risks for these types of scheme are borne by the employer.

Defined Benefit – CARE

154. Another type of defined benefit scheme is based on career average re-valued earnings or CARE. CARE schemes operate in the same way as final salary schemes in terms of providing a guaranteed pension at the member's retirement age, with the employer ultimately bearing the investment and longevity risk for the pensions promised to members. However, in a CARE scheme, rather than the amount of pension being based on the member's final salary, it is, in effect, based on their average salary over their working lifetime. This is worked out by calculating the pension accrued each year in the CARE scheme based on the member's salary in that year and the accrual rate. The member has a notional pension pot and the accrued pension is added to the pot each year. The pension which has been added to the pot in each of the previous years is increased in line with an inflation index (such as CPI) each year until retirement, when all these increased pension amounts are added together. This produces a total pension at retirement that reflects an average of earnings across the employment, re-valued in line with the chosen index. CARE provides the employer with more certainty over future costs, as (unlike a final salary scheme) it does not need to wait until the end of the member's working life to calculate the amount of salary on which the entire pension will be based.

Example 3

In the reformed civil service pension scheme (discussed below) employees will accrue 2.32% of their earnings each year. This percentage has been used in the example below for illustrative purposes.

Christine enters employment on 1 April, on pensionable pay of £25,000. She earns £580 (2.32% of £25,000) of pension in this year. Pensionable pay in her second year was £26,000. In that year she earns a pension of £603.20. The pension earned in the previous year has been increased by 2.5% in line with inflation, so by the end of year 2 she has earned a total of £1197.70 of annual pension. Each year she continues in the scheme, she will build up further pension this way.

Defined Contribution

155. In the private sector (and increasingly the voluntary sector) the most common kind of pension scheme provided in the UK workplace is a defined contribution or DC scheme. In these schemes, the pension payable on retirement is based on the amount of contributions, investment returns and the cost of purchasing a pension (an annuity) at retirement; there are no promises about the level of pension.

156. In a DC scheme, the employer (and usually the employee) puts a proportion of the annual salary into an investment fund each year. That fund is invested in the financial markets and over time is expected to increase in value. When the employee retires, they receive the value of the fund and have a pot of money to buy an annuity on the open

market from an annuity provider. The provider will assess the health of the employee, the amount of the pot and several other factors, before offering to sell the employee a pension payable for the rest of their life in return for the value of the fund. Unlike in a DB scheme, neither the value of the fund, nor the final pension is backed by an employer's promise: both the investment risk and the longevity risk are passed on to the employee.

157. The value of the fund at retirement is based on the investment performance of the funds that have been invested, which may be lower than the employee expected. The annuity provider is likely to offer them a lower pension if it expects the employee to live for a long period. Conversely, if the employee is not expected to live as long, they will be offered appropriate terms given their life expectancy and may receive a higher pension.
158. This transfer of both the investment risk and the longevity risk to the employee makes these pension schemes more predictable to manage for employers than DB schemes as the cost is certain at the outset and there is no risk to the employer of a pension deficit arising over time. These schemes tend to be inherently riskier for employees, as they may not receive the pension in retirement that they were expecting. They are also likely to provide a smaller level of benefit for the same contributions, as the risk of post-retirement longevity will ultimately be borne by the annuity provider (usually an insurance company). This provider will charge for bearing that risk and also, of course, for its overheads and a profit margin.

Cash Balance

159. There is another type of scheme sometimes used in the private sector, which can be thought of as a hybrid between a traditional DB scheme and a DC scheme. This type of scheme keeps the pre-retirement investment risk with the employer, but transfers the post-retirement investment and longevity risks to the employee. This is called a cash balance scheme and works in the following way.
160. Similar to a CARE scheme, each year the member builds up a notional pot but in this type of scheme the pot is cash rather than pension and is based on a percentage of the member's annual salary. Employee and employer pension contributions are invested with the scheme's investment funds just like funded final salary and CARE schemes. The notional cash amount accrued in previous years is increased in value in line with an index (such as CPI) each year through to retirement. The employer promises by how much the value of notional cash accrued each year will be increased through to retirement and, as such, the employer takes on all of the investment risk associated with backing up this promise. This risk taken on by the employer together with the notional nature of the benefit promise are key DB characteristics of cash balance schemes. However, when the member retires, the pot is converted into a pension, usually by

buying an annuity on the open market, just like in a DC scheme. This means that the member takes on the longevity risk and will not know how much pension they will finally receive until they retire and buy an annuity. This is the key DC characteristic of these schemes.

161. Cash balance schemes are not common in the UK, with around 2% of workplace pension schemes being of this type.¹⁰² They are often adopted where the employer wishes to continue to provide a robust pension scheme with strong underlying DB characteristics, but cannot afford the cost and cost uncertainty of a full DB scheme and wishes to share the risks with the employee.

162. But a cash balance scheme has disadvantages. Like a DC scheme, the amount of pension depends on annuity rates in the open market, which are uncertain and this makes it more difficult for members to plan for their retirement. It can also be complex to administer and is, arguably, less easy to understand than the other schemes.

Recent reforms in the public and private sectors

163. In the public service, pensions have traditionally been based on final salaries. Over the next few years, this will change as the Government reforms the schemes to reflect the recommendations of the Independent Public Service Pensions Commission (“the Hutton Commission”),¹⁰³ which reported in 2011.

164. The Hutton Commission was asked by the Government to make recommendations for public service “pension arrangements that are sustainable and affordable in the long term, fair to both the public service workforce and the taxpayer and consistent with the fiscal challenges ahead, while protecting accrued rights.” The Commission found that public service pensions had not responded flexibly to workforce and demographic changes, which meant that:

- as people were living longer, costs had increased; and
- costs were now shared unfairly between employees, employers and taxpayers.

165. Hutton found that final salary pension schemes could not deal with these structural problems and that public service schemes should instead move to a CARE model. He also recommended that the pension age in the new schemes (i.e. the age at which members can draw their pension with no early retirement reduction being applied) should be the same as the state pension age (and at a minimum be 65) except for the schemes covering the armed forces, fire-fighters and police.

¹⁰² *Workplace Pensions: challenging times*. Final Report of the ACA’s 2011 Pension Trends Survey, 3 January 2012

¹⁰³ *Independent Public Service Pensions Commission: Final Report*, 10 March 2011, http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm.

166. The Government has accepted these recommendations and is implementing them in stages. Until 2015, the current schemes will stay in place, but members will pay increased contributions (on average 3.2% higher by 2015) to reflect better the cost of the benefits. The Government is taking forward legislation to allow for the creation of new CARE schemes with Normal Pension Age (NPA) linked to State Pension Age for all but the armed forces, police and fire service. These new schemes are based on the Reference Scheme, a standard model scheme based on Hutton's recommendations. While all the schemes will be based on the Reference Scheme and its cost constraints, they will have differing designs: for example, as regards accrual rate and structure of contribution and benefits rates, reflecting the outcome of negotiations between different unions and employers.

167. In the private and voluntary sector, the shift away from final salary has been more radical. Many companies and organisations used to provide a final-salary-based pension for their employees. Over the past 25 years these schemes have become increasingly costly and difficult to manage for the employer. This has been driven partly by increased longevity, partly by challenging financial conditions and partly by changes to legislation and accounting practice. In some instances, the liabilities to the pension fund have become greater than the total value of the company sponsoring the pension scheme, which in some extreme cases contributed to companies ceasing to trade. In others, the company has closed the pension scheme to new employees, and eventually to further accrual by long-standing staff as well. The dominant trend in the private and voluntary sector now is towards pension provision on a DC basis.

168. On 3 January 2012 the Association of Consulting Actuaries published its pension trends survey report *Workplace Pensions: challenging times*. In addition to its own collected data, it uses both Office of National Statistics and Department for Work and Pensions data sources. It found that:

- of the 19 million employees in the private sector, only three million are active members of occupational pension schemes;
- whilst an estimated two thirds of these 3 million people are still active members of DB pension schemes, the predominant type of pension scheme now being run by employers are DC in nature;
- over 91% of DB pension schemes are closed to new employees and 37% of these are also closed to future accrual for existing employees;
- 21% of the survey sample closed their DB scheme to future accrual in 2010; and
- whilst there are some alternative DB schemes being offered to final salary schemes such as CARE, Cash Balance and DB/DC mixes (hybrids) these are very few. The main trend has been towards DC provision.

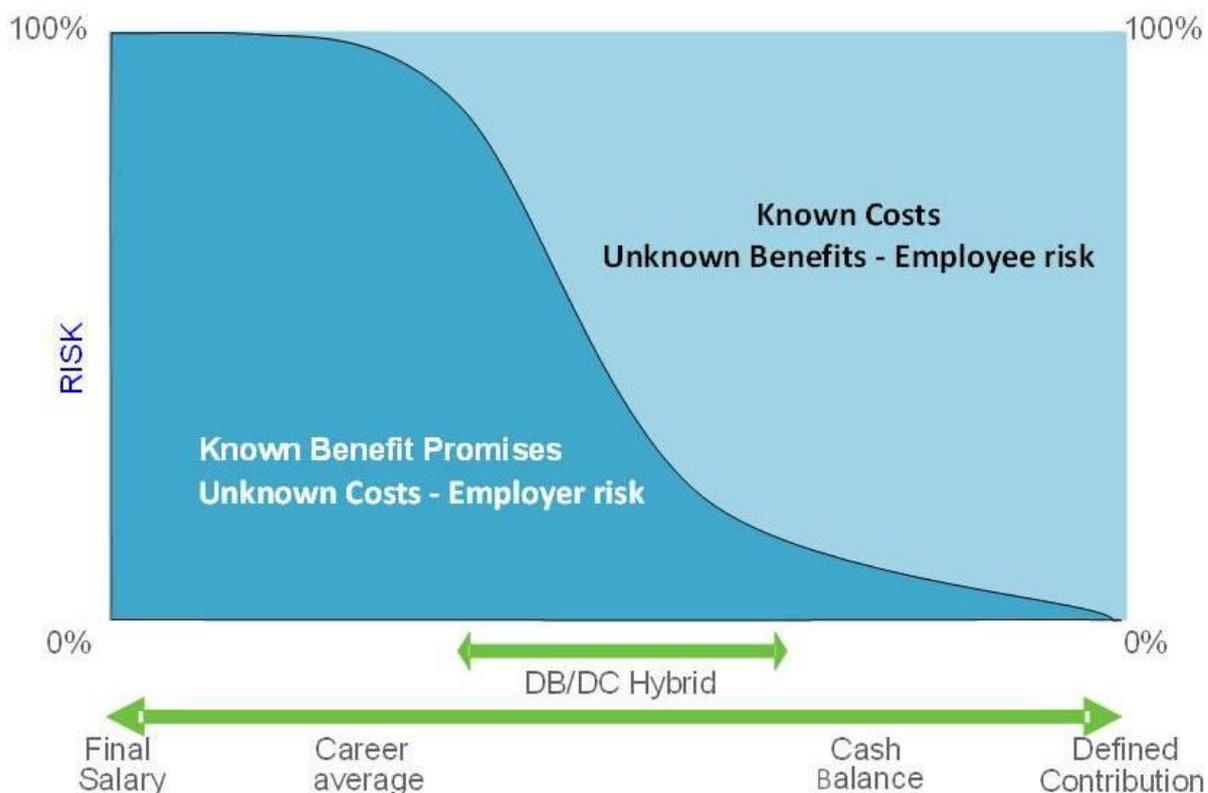
169. The Association of Chief Executives of Voluntary Organisations (“ACEVO”) published its *Pensions Survey 2010/11* in January 2012. Its main findings are summarised below.

- 79% of voluntary organisations offer pension provision to staff. Take-up rates are generally low with only about one third (32%) of charities with take-up rates above 81%.
- 92% of voluntary organisations offering a pension scheme do not offer a different pension to senior managers or specialist staff. Of the 8% that do, just under half (48%) offer a final salary scheme.
- Only 21% of voluntary organisations still offer a DB final salary pension scheme and these tend to be the larger charities (by turnover). 39% of these were associate employers to public sector organisations like the NHS.
- Of this 21%, about one third (36%) remain open to new joiners and just over half (56%) of these said they were committed to keeping their final salary schemes open to new joiners.
- Of the 62% of voluntary organisations running closed final salary schemes, less than half (46%) said they were committed to maintaining this position.
- Of those voluntary organisations offering final salary schemes, in the 12 months prior to the survey, 52% had made no changes to their schemes at all whilst 13% had closed their scheme to existing members to any future benefit accrual. The remaining 35% made one or a combination of changes including closure to new joiners (25% of total survey respondents) increased employer and employee contributions and reduced accrual rates.
- Of those voluntary organisations offering final salary schemes, 25% anticipate further changes to their schemes as a result of auto-enrolment, the most commonly anticipated changes being closure to new entrants (44%) and increased contributions (38%). The most common type of pension scheme (88%) is of the DC type and most of these are of the contract type e.g. a group personal pension or stakeholder or individual variants of these arrangements.

The balance of risk

170. These types of scheme outlined above differ in essence in relation to the balance of risk between the employee (or in this case the MP) and the employer (the taxpayer). As illustrated in the diagram below, this range of difference can be thought of as a spectrum, with the employer at one end and the employee at the other. In a defined benefit final salary scheme, the risk is near one end of the spectrum: with the employer. In contrast, a DC scheme would be placed near the other end, as the investment risk and the longevity risk lie with the member. Between these two extremes lie the CARE scheme and the Cash Balance scheme, both of which share the risk to some extent, between the employer and the member.

Chart 2: The spectrum of risk between schemes



The current MPs’ Pension Scheme

171. Like most other current public service pensions, the current MPs’ Pension Scheme provides a pension based on an MP’s final salary. However, unlike those schemes, it is a funded scheme, which means that the pensions are paid from a fund containing the invested taxpayer and MP contributions.

172. The MPs’ Pension Scheme is an important part of the remuneration package for MPs. In return for contributions from MPs and the taxpayer, it provides a defined pension for life, once an MP reaches the age of 65 (or older if they have not yet left the House of Commons). As this is a final salary defined benefit scheme, the pension is based on the MPs’ final salary and once in payment is increased in line with prices each year.

173. The current MPs’ Pension Scheme is expensive, in comparison with other public service schemes. It provides relatively generous benefits and consequently requires high contributions from the taxpayer and from MPs. It is expensive because MPs accrue benefits at a rate faster than in most other public sector schemes and because the cost of providing those benefits to MPs is higher than the cost in those other schemes. MPs can currently accrue benefits at one of three levels: 1/60^{ths}, 1/50^{ths} or 1/40^{ths}, depending on how much they contribute. This means that for every year of their membership of

the pension scheme, they will receive either 1/60th, 1/50th or 1/40th of their final salary as a pension when they retire.¹⁰⁴

Example 4

An MP retires at age 65 having been a member of the House of Commons for 10 years, accruing at 40ths. His pension will be worth 10/40^{ths} (or one quarter) of his final salary.

In addition to the MPs' Pension Scheme there is a Supplementary Scheme for those MPs who serve as a paid Committee Chair, or the Chairman or Deputy Chairmen of Ways and Means.

The MPs' Scheme and the Supplementary Scheme form part of the same pension fund. However the pension provided from the MPs' Pension Scheme is calculated using the member's final salary, while the Supplementary Scheme pension is calculated on a CARE basis. This takes account of the fact that Committee Chairs and the other office holders may be in office for one or more short periods over their career and that they may revert to being backbenchers before they retire. MPs in the Supplementary Scheme accrue benefits and pay contributions at the same rate as they do in the MPs' Pension Scheme. So the Chair of a Select Committee accruing at 1/40^{ths} in the MPs' Pension Scheme (and paying 13.75% of his or her salary), would pay the same proportion from his or her Chair's salary and also accrue at 1/40^{ths}.

The Supplementary Scheme also provides pensions for Ministers, although the rules as they apply to Ministers are set by the Government and not IPSA. Accordingly they are outside the scope of this consultation.

The changes we discuss in this consultation document would apply equally to MPs' membership of the MPs' Pension Scheme and the Supplementary Scheme, although not to the Ministerial element. For brevity we refer only to the MPs' Pension Scheme.

Further details of the current parliamentary pension schemes can be found at <http://www.parliament.uk/briefing-papers/SN01844.pdf>

174. MPs pay for their pension through deductions taken from their salary each month. As is generally the case, pension contributions are taken from gross pay and are not taxable. The current level of contributions paid by the MP (and the monetary value of

¹⁰⁴ In the two upper tiers, the total pension available is subject to a limit of two-thirds of the final salary including any other pensions from previous employment.

those contributions) following the interim increase introduced by IPSA in April 2012¹⁰⁵ are shown in the following table, together with the amount of pension accrued in one year.

Table 9: Contribution and Accrual rates in the current MPs' Pension Scheme

Accrual Rate	MP contribution rate	Annual Gross Cost to MP	Annual Accrued Pensions
1/60 th	7.75%	£5,094.69	£1,096
1/50 th	9.75%	£6,409.45	£1,315
1/40 th	13.75%	£9,038.97	£1,643

175. These contributions are higher than most other public service schemes (such as the civil service and teachers' schemes), which is a reflection of the high cost of providing the benefits. Over 95% of MPs contribute at the higher tier and therefore accrue the highest benefits. When averaged across all members, the current average MP contribution rate is 12% of payroll. The taxpayer also contributes an additional 20.4% of the payroll, meaning that the overall cost of the MPs' Pension Scheme is 32.4% of pensionable payroll, or £13.6m each year.¹⁰⁶ Of the total contributions, MPs pay 37.04%, while the taxpayer pays the remaining 62.96%.

176. In common with other public service pension schemes the MPs' Scheme also provides other benefits, such as ill-health pensions, death in service payments and spouse and dependants' pensions. The levels of some of these benefits, such as the surviving spouse pensions, are slightly higher than those available in other public service schemes.¹⁰⁷ This contributes to the higher cost of the pension scheme.

177. The Normal Pension Age (i.e. the age at which members can draw their pension with no early retirement reduction being applied) for the MPs' Pension Scheme is 65 years. This is the same as the majority of other public service schemes, which are currently open to new members (although this is increasing as part of the current reforms). However, few MPs will choose to retire precisely at 65, thereby causing a by-election. MPs who retire before their normal pension age may draw their pension early (from 55 years), with the pension actuarially reduced.

¹⁰⁵ For more details of this interim increase see:

<http://parliamentarystandards.org.uk/transparency/Our%20consultations/Pensions/MPs%20Pensions%20-%20%20Report%20on%20the%20Consultation%20-%20March%202012.pdf>.

¹⁰⁶ The taxpayer also contributes an additional 8.6% of the pensionable payroll annually to make good a deficit in the fund.

¹⁰⁷ Based on analysis by Hymans Robertson commissioned by IPSA.

178. The pension fund from which MPs' pensions are paid is governed by the Constitutional Reform and Governance Act (2010), as well as other pensions legislation. That Act requires that IPSA consult the Trustees and other interested parties when reviewing and making the MPs' Pension Scheme. It also requires us to obtain the agreement of the Trustees for certain measures, such as paying pensions from another source (as may be the case in a DC scheme). We will work with the Trustees throughout our Review to ensure that the fund is able to continue to meet its obligations to retired MPs, spouses and dependants and Ministers, following reform of the MPs' Pension Scheme.

Why is reform needed?

179. The MPs' Pension Scheme requires reform to make it affordable, sustainable and fairer to taxpayers and MPs alike. Since 1999 the costs of the scheme have increased by nearly 50% due to an increase in the accrual rate, increased longevity, poor investment returns and other factors. This has led to increased costs for both members and the Exchequer, as shown in the table below. Over this period, the costs to MPs have doubled, and the cost to the Exchequer has increased by 24%.

Table 10: The historical cost of the MPs' Pension Scheme

Cost as percentage of payroll			
Period¹⁰⁸ (1 April -31 March)	Assessed cost of accruing benefits	Average members' contribution rate	Exchequer's share of cost of accruing benefits
1999-2002	21.6%	6%	15.6%
2002 to 2003	24.9%	6%	18.9%
2003 to 2006	28%	8.7%	19.3%
2006 to 2009	27.4%	9.3%	18.1%
2009 to 2012	31%	10.8%	20.2%
2012 -	32.4%	12.0%	20.4%

¹⁰⁸ The figures for dates before 2012 include the costs of the Supplementary Scheme of the pension fund as well as the MPs' element. Before 2012 costs and contributions for both elements were assessed together. Due to the small number of members in the Supplementary Scheme, the effect of this is minimal.

180. The current cost of the MPs' Pension Scheme is high, especially when compared with the cost ceilings for the other main public service schemes, which average around 21.6% of payroll.¹⁰⁹ While the headline cost can be reduced in various ways, such as adjusting the retirement age, or reducing the ancillary benefits, the bulk of the cost (and the risk) consists of the core pension. This means that there is a need to examine ways of reducing the costs of providing the central benefits of the MPs' Pension Scheme.

181. The MPs' Pension Scheme also needs to be reviewed because there are no arrangements in place to deal with any future increases in cost. As the MPs' Pension Scheme currently operates on a "balance of cost" basis, when the cost of the MPs' Pension Scheme increases, the default position is that the entire increase is borne by the taxpayer. While in the past few years increases have been borne by both the taxpayer and MPs, this has been through a complex formal review process and there is no simple mechanism for increasing MPs' contributions (or conversely reducing the benefits) to share any increases in cost (commonly called a cost-capping and sharing arrangement). These arrangements will feature in the future design of the other public service schemes, to ensure that the cost of pensions remains affordable and sustainable. The taxpayer should not have to bear the entire cost of any future increase in the cost of the MPs' Pension Scheme and we will consider introducing a cost-capping and sharing arrangement in any future scheme.

182. As we consider possible reforms to the MPs' Pension Scheme aimed at reducing the cost, we will bear in mind a series of guiding principles specific to this element of the remuneration package.

- **The MPs' Pension Scheme must provide MPs with an appropriate pension in retirement, based on their service as an MP.** The MPs' Pension Scheme should not be expected to make up, at the taxpayers' cost, any shortfall in an individual's pension provision from their time outside their career as an MP, although MPs should be able to increase their pension at their own cost and risk if they wish.
- **The MPs' Pension Scheme should, as far as possible, seek to be more equitable between MPs of different ages, backgrounds and income levels.** For instance, it should avoid a situation where MPs who are able to contribute more receive a disproportionately higher contribution from the taxpayer.
- **The MPs' Pension Scheme must have an appropriate and fair balance of costs and risks between the member and the taxpayer.** It should be explicit that an increase in the costs or the risks should be borne by both the taxpayer and the MP, not exclusively by one party or the other.

¹⁰⁹ HM Treasury, "Public Service Pensions: Good Pensions That Last", November 2011, http://www.hm-treasury.gov.uk/d/pensions_publicservice_021111.pdf

- **The MPs' Pension Scheme must be sustainable and affordable in the short and long term and not require significant amendment for at least 25 years.** This is the promise given to other public sector employees and we believe it is a sound one.
- **Any reforms to the MPs' Pension Scheme should protect accrued rights.** While the legislation allows IPSA to adjust pension rights accrued under a previous pension scheme (with scheme Members' approval), we consider that such rights should be protected and do not propose to alter them.

Q10: Do you have any views on the guiding principles for reforming MPs' pensions?

Developing our options for reform

183. In considering options for the future of the MPs' Pension Scheme we have worked with our advisers, Hymans Robertson¹¹⁰ and the Government Actuary's Department (GAD), to calculate the cost of a CARE scheme based on the Government's Reference Scheme (see paragraph 166), using the membership data of the current MPs' Pension Scheme. This has produced a figure for the total cost of providing the benefits which we can use to compare the other pension models. This total cost includes the contributions needed from both MPs and the taxpayer. It makes no comment on the split between the MP and the taxpayer contribution, which is discussed further below. Using the reference scheme, the Government Actuary's Department has calculated that the cost ceiling for our purposes is 24.5% of pensionable payroll. This compares with the current cost of the MPs' Pension Scheme of 32.4%.¹¹¹

184. This mirrors the approach the Government has taken to the reform of the other public service pension schemes. It has also taken the membership data of the current schemes, applied them to the reference scheme design and determined a total cost (it calls this a cost ceiling). Within this cost ceiling, the schemes have had broad discretion to amend the individual design (following union negotiations) to fit the needs of their members.

¹¹⁰ The pensions and benefits consultants Hymans Robertson (www.hymans.co.uk) is an independent advisory firm with broad experience in public and private sectors. It has more than 90 years' experience serving public and private sector schemes, and has been heavily involved in a number of significant public sector pensions reform projects. Hymans Robertson has not made a recommendation to IPSA on the future design of the MPs' pension scheme. Instead it has provided advice to IPSA on the different options available and advised on the potential implications of each approach for members and other interested parties. Hymans Robertson has also supported GAD in modelling benefit calculations. The content of this consultation paper has been prepared by IPSA who will be responsible for decisions on the future design of MPs' pension arrangements and the level of benefits and pay.

¹¹¹ Slightly different assumptions were used to calculate these figures. Full detail can be found in the report from the Government Actuary's Department, which is available on our website www.parliamentarystandards.org.uk

185. We are clear that all rights accrued under the current MPs' Pension Scheme will be protected and will not be affected by the reforms we plan to introduce.

186. In what follows we have used the total cost as a guide to help us to compare the benefits available under each scheme, but there are several caveats that should be noted before proceeding.

- This total cost is only a tool for comparison. We have not yet determined that any future design should be based on this total cost. It is not a cost ceiling¹¹² and following this consultation we might decide that a total cost of 24.5% of pensionable pay is not appropriate. If a lower total cost were to be applied to any future design, the benefits would also reduce.
- The cost and benefit figures that we have prepared are only illustrations. While they are based on sound methodology and assumptions, it is inevitable that the assumptions will differ from actual experience.¹¹³ For example, investment returns, inflation and salary growth will not be uniform year-on-year over the long term. If different assumptions were adopted then this would produce different costs and for some scheme designs, different benefit illustrations. Therefore it should not be assumed that the total contribution rates or benefits illustrations are fixed or guaranteed.
- These illustrations each assume the same cost of 24.5% of pay for each scheme design. However, the benefits calculated under the cash balance and DC schemes assume an annuity is purchased from a provider on the open market and assumes current market conditions apply in the future also. There is, therefore, a discontinuity with the costings and the purchase of a pension within the CARE illustrations.
- These illustrations assume that the normal pension age (NPA) for future service will be the State Pension Age. This is a higher age than the MPs' current NPA of 65 and is in line with the proposed reforms to other public service pension.
- These illustrations exclude costs arising from any transitional protections. In changes to the other public sector pension schemes, employees within 10 years of their NPA get full protection from the reforms and will see no change in when they can retire, nor any decrease in the amount of pension they receive at the NPA. Other schemes have also made provision for tapered protection for scheme members who are within between 10 and 14 years of their NPA, with the precise details varying by scheme. These transitional measures may attract a cost and if

¹¹² IPSA is not required to apply a cost ceiling.

¹¹³ These illustrations and the data, methodology and assumptions on which they are based can be seen in full at our website www.parliamentarystandards.org.uk.

we decide to apply such measures to the reformed MPs' Pension Scheme, contribution levels will have to increase to pay for them.

- These illustrations assume that the benefit limits existing in the MPs' Pension Scheme as a result of a previous HMRC tax regime will not apply to any new benefit structure. This is consistent with Lord Hutton's report which said that "caps on total pension accrual (for example, a limit on the maximum number of years of pensionable service) should be removed or significantly lifted so as not to discourage people from having a longer working life".

187. Throughout the illustrations below, we have used four example MPs to show the likely benefits that they may accrue from each of the four schemes. These four examples are:

- Short Stayer – Young: an MP who joins the MPs' Pension Scheme at age 28 and serves for 5 years;
- Short Stayer – Old: an MP who joins the MPs' Pension Scheme at age 55 and serves for 5 years;
- Medium Stayer: an MP who joins the MPs' Pension Scheme at age 45 and serves for 10 years; and
- Long Stayer: an MP who joins the MPs' Pension Scheme at age 45 and serves for 22 years.

188. We believe that these examples reflect a broad cross-section of the experiences of MPs. In each example we have shown the projected benefits of the model, as well as the projected benefits from the current scheme. All the illustrations use the MPs' current salary of £65,738, which is assumed (for these purposes) to increase in line with general earnings increases.

The Reference Scheme

189. The Reference Scheme is a CARE scheme design, with the following features.

- NPA linked to State Pension Age.
- An accrual rate of $1/60^{\text{th}}$ of pensionable earnings per year.
- Past service for active members (i.e. those still in the MPs' Pension Scheme) increased at the rate of actual earnings growth.
- Pensions in payment and in deferment indexed by CPI.

- There are no fixed lump sums, but MPs would be free to opt to commute some of their pension to a lump sum, subject to HMRC limits. However, for the purposes of the illustrations set out below, we have assumed no commutation.
- Ancillary benefits (ill-health, death and survivors' benefits) will match the provisions that are currently available to new members of the MPs' Pension Scheme.
- MPs who retire after their NPA would receive an actuarially fair increase in their pension.
- The investment and longevity risks lie with the employer.

We would welcome views on the features of this scheme.

190. GAD has determined that applying this Reference Scheme to the current membership would cost 24.5% of the current payroll costs. This compares well with the cost of the current scheme, which is 32.4%.¹¹⁴

191. While we do not make any assumptions about the split of this 24.5% cost between the taxpayer and MPs, MPs currently pay for 37.04% of the total contribution and so applying this to the cost of the new Scheme would see MPs paying 9.07% of their pay, a reduction from the current average of 12%.

192. For our four example MPs, the annual pension benefits this scheme could produce are shown in the below table. For details of the illustration taking into account any lump sum taken by the member, please see our website www.parliamentarystandards.org.uk.

Table 11: CARE Scheme benefits illustration

Annual pension benefits in £				
Member	Reference CARE Scheme	Current scheme		
		1/40 th accrual	1/50 th accrual	1/60 th accrual
Short stayer – young	2,400	3,700	2,900	2,400
Short stayer – old	4,600	6,900	5,500	4,600

¹¹⁴ Slightly different assumptions were used to calculate these figures. Full detail can be found in the report from the Government Actuary's Department, which is available on our website www.parliamentarystandards.org.uk

Medium stayer	8,100	12,100	9,700	8,100
Long stayer	23,100	34,700	27,700	23,100

Cash balance

193. Using the total cost of 24.5% of payroll, we have developed a model for a cash balance scheme with the following features.

- NPA linked to State Pension Age (or 65, whichever is higher).
- Cash benefits to be earned at a rate of 30.7% of pensionable earnings per year.
- Accrued cash benefits for active members (i.e. those still in the MPs' Pension Scheme) increased at the rate of actual earnings growth until the member ceases to be in the MPs' Pension Scheme.
- Accrued cash benefits indexed by CPI in deferment.
- The full cash sum accrued to the member's pension pot is taken at retirement to purchase an annuity.
- The member could alternatively use some of the pot to provide a lump sum, subject to HMRC limits, with the remainder used to purchase an annuity. For the purposes of the illustration below, we have assumed no lump sum is taken.
- The cash balance pot is provided on ill health or death, without enhancement.
- The investment risk prior to retirement lies with the employer, but the investment and longevity risk post retirement through the annuity price lies with the member.

194. For our four example MPs, the annual pension benefits this scheme could produce are shown in the table below. As the cash balance scheme is used to purchase an annuity on retirement, the pension amounts shown are only illustrative and are based on current market conditions, which are assumed to continue. Different mortality assumptions used by insurers to price annuities will result in a different level of pension in retirement. For details of the projection taking into account any lump sum taken by the member prior to purchasing an annuity and different mortality assumptions, see our website www.parliamentarystandards.org.uk.

Table 12: Cash Balance Scheme benefits illustration

Annual pension benefits in £				
Member	Cash Balance	Current scheme		
		1/40 th accrual	1/50 th accrual	1/60 th accrual
Short stayer – young	1,700	3,700	2,900	2,400
Short stayer – old	3,200	6,900	5,500	4,600
Medium stayer	5,600	12,100	9,700	8,100
Long stayer	16,100	34,700	27,700	23,100

Defined contribution

195. Using the total cost of 24.5% of payroll, we have developed a defined contribution plan with the following features.

- NPA linked to State Pension Age.
- A total contribution rate of 24.5% of salary.
- The full cash sum accrued to the member’s “pot” is taken at retirement to purchase an annuity.
- The member could alternatively use some of the pot to provide a lump sum, subject to HMRC limits, with the remainder used to purchase an annuity. For the purposes of the illustrations below, we have assumed no lump sum is taken.
- The full value of the member’s investment fund is provided on ill-health or death, without enhancement.
- Both the investment risk and the longevity risk lies with the member.

196. For our four example MPs, the annual pension benefits this scheme would produce are shown in the table below. The pension amounts are only illustrative and are based on current market conditions which are assumed to continue. As the total fund is used to purchase an annuity on retirement, different mortality assumptions used by insurers to price annuities will result in a different level of pension in retirement. In addition, the size of the fund on retirement is dependent on investment returns. For details of the projection taking into account any lump sum taken by the member prior to purchasing

an annuity and different mortality and investment return assumptions, see our website www.parliamentarystandards.org.uk.

Table 13: Defined Contribution Scheme benefits illustration

Annual pension benefits in £				
Member	Defined contribution	Current scheme		
		1/40 th accrual	1/50 th accrual	1/60 th accrual
Short stayer – young	3,800	3,700	2,900	2,400
Short stayer – old	3,100	6,900	5,500	4,600
Medium stayer	6,600	12,100	9,700	8,100
Long stayer	13,900	34,700	27,700	23,100

Benefits Illustrations

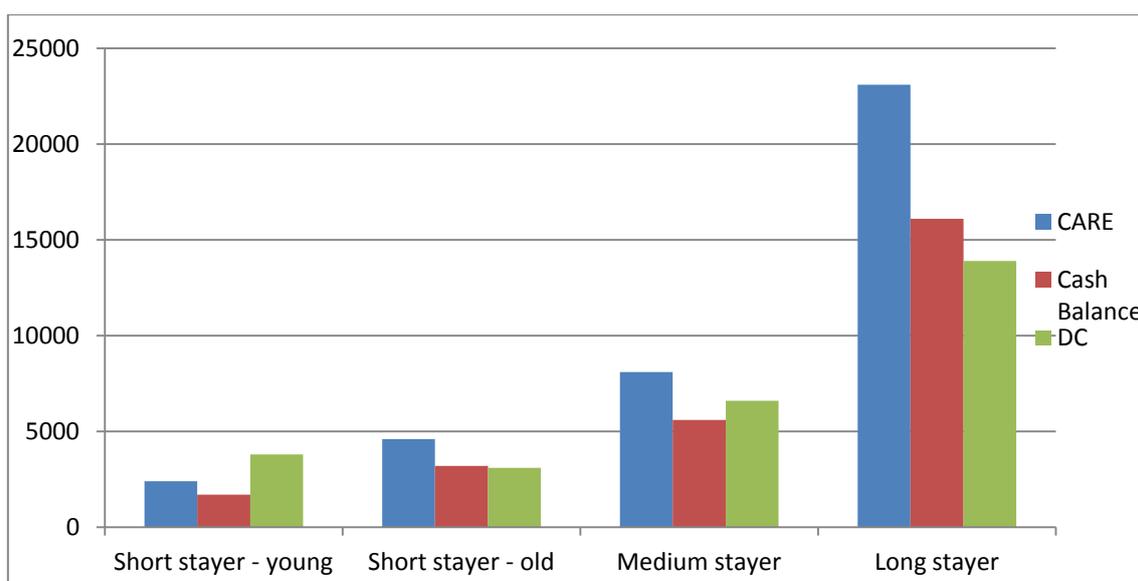
197. All these illustrations (and the data, methodology and assumptions on which they are based) are available on our website www.parliamentarystandards.org.uk.

198. These illustrations are shown graphically below and show that different schemes are likely to benefit different MPs in different ways. For example, a DC scheme is likely to be better for a short staying younger MP because of the length of time that contributions to the fund have to accumulate (i.e. to gain investment growth) relative to an older member. On the other hand, because of the lack of available time open to an older member to "grow" a DC fund and also the impact of open market annuity rates, a CARE scheme is likely to be more advantageous for an older member. Of course, the proposed scheme designs have different risk profiles for each member and so these should also be considered together with the benefit illustration amounts.

199. The different schemes also have different risk profiles for the taxpayer, as different risks are transferred to the MP in each.

200. The graph below shows the relative benefits from each scheme illustration, in yearly pension, for each example MP.

Graph 4: Different Schemes: benefits illustration



Q11: Should the MPs' Pension Scheme be reformed using a Career Average Revalued Earnings (CARE) scheme in the same way as other public service schemes? Or should another model be adopted?

Flexibility over pension provision

201. Several MPs have told us that they value the flexibility that the current MPs' Pension Scheme offers, which allows them to choose the rate at which they accrue pension and, therefore the cost. A lower accrual rate leads to lower benefits and is cheaper for the MP, who pays a lower contribution rate. This is not a common feature of public service defined benefit schemes, which generally have a single accrual rate for members.¹¹⁵ The current, three tiered system is more complex to administer than a single tier and we are not persuaded that such a high degree of flexibility is necessary within this scheme.

202. As part of its reforms, the Local Government Pension Scheme (LGPS) will offer limited flexibility to members who wish to pay lower contributions: they will be able to pay 50% contributions for 50% of the pension benefits.¹¹⁶ This flexibility could be a useful option for MPs and would be easier to administer than the current, three tiered system. It would, however, continue to be more complex than a single contribution and accrual rate.

¹¹⁵ In defined contribution schemes it is very common for members to be able to choose their own contribution rate, sometimes with a variable employer contribution as well.

¹¹⁶ Local Government Pension Scheme, <http://www.lgps.org.uk>

203. This kind of flexibility is arguably more valuable to members of DB schemes such as final salary, CARE, or cash-balance than for DC schemes. Without such flexibility, the DB member is tied to the contribution rate set in relation to the benefit promise made by the employer, which may be problematic if the member cannot afford it at some point in time. Conversely, in DC schemes, it is much easier to build contribution flexibility into their design as the employer does not have to concern themselves with administering multiple benefit promises – only the contribution rate structure. Multiple contribution rate structures in DC schemes are common.
204. Some MPs may want even greater flexibility and may not wish to take part in a pension scheme at all, or may wish to invest in a personal pension, rather than the MPs' Pension Scheme. We will explore ways to allow these members to retain pension benefits, while opting out of the MPs' Pension Scheme, subject to the rules on auto-enrolment. One way might be to consider the total remuneration that MPs receive in salary and pension contributions (£65,738 in salary and £13,411 in taxpayer pension contributions: a total of £79,148) and allow members to take a higher proportion of this payment in provision of contributions to another pension fund, or conversely a higher salary and lower contribution. Any such extra flexibility would need both to protect the health of the current fund and avoid any suggestion that we are encouraging MPs to opt out of the reformed MPs' Pension Scheme.

Q12: Should MPs be offered flexibility in their pension provision, such as reduced contributions in return for reduced benefits?

The MPs' share of the total cost

205. A final question concerns the share of the total cost of the reformed MPs' Pension Scheme which should be met by the MPs themselves. For reference, as noted in paragraph 175, the current cost of the MPs' Pension Scheme is 32.4% of pensionable payroll costs. The average MP contribution is 12%, or 37.04% of the total cost, which for most MPs is in return for an annual accrual rate of 1/40th of final salary.
206. In Table 14 below, we show how this compares to the proportions paid by members of the other public service schemes from 2015. This allows a comparison of employees' share of cost measured against the cost of a common scheme design i.e. the Government's Reference Scheme as opposed to varying scheme designs and accrual rates (as currently exists) which would make comparison much more complex.
207. These figures are based on the cost ceilings produced by the Treasury, representing average contribution rates across the membership of each of the public sector schemes (including, for some schemes, the average increase of 3.2% in employee contributions required by 2015 to be phased in over the three year period commencing April 2012).

They are not the actual contribution rates that may be paid by employees on differing levels of pay. As noted above, within these cost ceilings, each scheme has, as a result of negotiations, ended up with its own unique design, but most schemes have adopted a tiered contribution structure, placing a greater proportion of the share of this 3.2% increase on the higher paid. The first phase of employee contribution increases started in April 2012. Details of the second and third phases have yet to be confirmed. Consequently, to provide some balance in this comparison, for each of the public sector schemes in the table on the next page, this consultation has compared what share of the total cost would be borne by those employees in those schemes in 2012/13 whose pensionable earnings are equivalent to the current annual basic salary of an MP i.e. £65,738. We do not speculate about what the final share of employee costs will be by pay level from 2015.

208. As the table shows, the proportion of the total cost borne by the MP in the current MPs' Pension Scheme is slightly lower than the average paid by members in the other public service schemes from 2015 (Column D); and is substantially lower than some outliers (such as the NHS, Police and Firefighters' schemes). The Table has been produced by Hymans Robertson LLP based on public sector pension scheme data published by the Treasury, GAD & private sector pension data by the ACA in its report *Workplace Pensions: challenging times. Final Report of the ACA's 2011 Pension Trends Survey*, 3 January 2012. All percentages have been rounded. It should be noted that the Police & Fire pension schemes have lower retirement ages compared to the other schemes which pushes up their cost ceilings and employee contributions; therefore this feature may distort the figures in columns D & F for the average share of cost of members.

Q13. How should we determine the appropriate proportion of contributions from the MP and the taxpayer?

Table 14: Members' Share of the Total Cost: A Public Sector Comparison

Government Reference Pension Scheme	A Total Cost/ Gross Cost Ceiling	B <u>Average</u> Annual Employer Contribution Gross of tax (% of payroll)	C <u>Average</u> Annual Employee Contribution Gross of Tax as per Scheme Heads of Agreement (% of payroll)	D Employee Share of Total Cost Based on average employee contribution rate.	E Salary = £65,738 Employee Contribution Gross of Tax (% of payroll) 2012/13 ¹¹⁷	F Salary = £65,738 Employee Share of Total Cost 2012/13
	= B+C	= A-C	= A-B	(C/A) x 100%		(E/A) x 100%
NHS	21.9	12.1	9.8	45%	8.90	41%
Civil Service	22.5	16.9	5.6	25%	5.90 ¹¹⁸	26%
Teachers	21.7	12.1	9.6	44%	8.00	37%
LGPS	19.5	13.0	6.5	33%	9.90 ¹¹⁹	51%
Police	28.0	14.3	13.7	49%	10.75 ¹²⁰	38%
Fire Service	27.0	13.8	13.2	49%	9.30% ¹²¹	34%
Average of Above Schemes	23.4	13.7	9.7	41%	8.79	38%
MPs' Pension Scheme	24.5 ¹²²	15.4	9.1 ¹²³	37%	7.75 ¹²⁴	32%
Average Private Sector – DB ¹²⁵	27.4	21.4	6.0	22%	6.0	22%
Average Private Sector – DC ¹²⁹	11.4	6.2	2.7	40%	2.7	40%

¹¹⁷ Rates quoted sourced from scheme websites and reflect contribution levels for 2012/13 only and for the earnings band into which the MPs' current annual basic salary of £65,738 would fall. Contribution rates and any banding of these in respect of earnings for 2013/14 and 2014/15 have yet to be determined (see note below for LGPS).

¹¹⁸ Rate for Classic Plus, Premium & Nuvos Sections of the Principal Civil Service Pension Scheme.

¹¹⁹ LGPS (Local Government Pension Scheme) new contributions rates will not apply until April 2014 and this 9.9% includes the full increase due for the salary band for an employee earning the equivalent of an MP in 2012/13. There is currently no further phasing of contribution increases after this time in LGPS

¹²⁰ Contribution rate for New Police Pension Scheme 2006 which has a lower accrual rate of 1/70th compared to the Reference Scheme's 1/60th. The old 1987 Police Scheme has an accrual rate of 12.5% for a police officer on the say level of basic salary as an MP.

¹²¹ Contribution rate for "New Firefighters Pension Scheme" which is the pension scheme currently open to new joiners. The 1992 scheme is closed to new joiners. The equivalent contribution rate for a member of this scheme on the same pay as an MP is 12.2% of payroll.

¹²² There is no cost ceiling for the Reference Scheme for MPs. This figure of 24.5% has been produced by GAD for the purposes of this consultation.

¹²³ For the purpose of this table the current MPs' share of the total cost of the MPs' Pension Scheme has been assumed to continue.

¹²⁴ 7.75% is the contribution rate in the MPs' Pension Scheme for the 1/60th accrual level.

¹²⁵ Average Private Sector DB and DC scheme contributions rates remain unaffected by public sector pension reform and are presented here for comparison only.

PART C: NEXT STEPS

Part C looks at what changes we might introduce in the short term, before the next election. These changes, if introduced, would affect incumbent MPs.

CHAPTER 10: IMPLEMENTATION AND NEXT STEPS

Next steps

209. During the course of this consultation period we will continue to talk to the public through our website, Twitter feed and online polling. We will meet MPs and Ministers, we will speak to experts and the media and we will continue to engage and encourage debate. We will then gather and analyse the responses to this consultation, the responses to our Twitter feed, and messages on our website and other channels, using them to set out in early January 2013 what we see as the way forward. At this point the composition of the IPSA Board may change, following the appointments process taking place this autumn. The new board will have the opportunity to consider these recommendations, and the administrative burden of any reforms before formulating the firm plans for the new remuneration package for MPs. The new package will be set out the detail in a further consultation paper in the spring of 2013. The results of this consultation will be announced later in 2013 and other things being equal, the new package will be introduced immediately after the next general election, expected in 2015.
210. We believe that it will be important to make the new remuneration package clear as far in advance of the upcoming general election as possible. Potential candidates should be able to put themselves forward for election on the basis of a publicly agreed and understood remuneration package. They should also be protected from any pressure to promise to refuse or return any part of that package. MPs deserve appropriate remuneration for their service and any such pressure should be resisted.
211. We recognise that economic circumstances may change before 2015 and what looks affordable in 2013 may not be so two years later. It may be necessary, therefore, to re-examine the package shortly before the election, although we have no plans currently to do so.

Interim pay increases

212. In November 2011 the Chancellor of the Exchequer stated that once the current public sector pay freeze has come to an end, public sector pay awards would be held to an average of one percent for each of the following two years. The Chancellor accepted that the one percent increase was tough, but argued that it was “fair to those who work to pay the taxes that will fund it” (House of Commons, 29 November 2011, c799).
213. As was set out in Chapter 2, there has been no increase in MPs’ pay since April 2010 and so the public sector pay freeze has effectively been applied to them. And, like other employees in both the public and private sectors, they have faced rising prices at a time of pay restraint. In recognition of this fact, we propose that we should apply a one percent pay increase to MPs’ pay in April 2013 and again in April 2014.
214. This increase would apply to both MPs’ basic pay and to the additional pay of Select Committee Chairs and members of the Panel of Chairs. In 2013, this would mean an increase of £657.38 in an MP’s basic pay and up to £145.82 for a Select Committee Chairs or member of the Panel of Chairs. In 2014, the increase in basic pay would be £663.95 and up to £147.28 for Select Committee Chairs or member of the Panel of Chairs. As with the rest of MPs’ pay, the increases would be taxable. The total figures are shown in the below table.

Table 15: Pay in 2012, 2013 and 2014 if 1% increases applied

	April 12	April 13	April 14
Basic Pay	£65,738	£66,395.38	£67,059.33
Paid Chair of Select Committee	£14,582	£14,727.82	£14,875.10
Panel of Chairs < 1 Year	£2,910	£2,939.10	£2,968.491
Panel of Chairs 1-3 Years	£8,166	£8,247.66	£8,330.137
Panel of Chairs 3-5 Years	£11,082	£11,192.82	£11,304.75
Panel of Chairs > 5 Years	£14,582	£14,727.82	£14,875.10

Q14: Do you believe that IPSA should follow the public sector pay policy and increase MPs’ pay by one percent in 2013 and 2014?

CHAPTER 11: RESETTLEMENT SUPPORT

Introduction

215. All employees in the UK who have been employed for more than two years are entitled to a payment when they are made redundant. These payments both compensate employees for the loss of employment and provide a level of financial support whilst securing new employment. It is common for the amount to differ based upon the age of the employees, how long they have served within the organisation, and whether they have left the organisation voluntarily or through compulsory proceedings.
216. MPs do not have an employer who could offer a redundancy package to those leaving Parliament. Instead, eligible MPs leaving the House of Commons have historically received resettlement payments aimed at helping MPs to adjust to life outside Parliament and, if they choose, re-enter the workforce. When these grants were first recommended in 1971, they were available only to MPs who lost their seats at an election. In 1975 these payments were extended to MPs whose seats had ceased to exist as a result of boundary changes. As this provision created some anomalies, by 1983 these resettlement payments were extended to all MPs leaving Parliament for any reason.
217. We are considering resettlement payments as part of this review of MPs' pay and pensions as they form part of the wider remuneration package, similar to redundancy or severance payments which some other employees receive when their job is terminated.

Traditional employment and redundancy packages

218. Many employees are entitled to redundancy packages if their employment is terminated. Employers usually offer a package which includes a lump sum payment to qualifying employees beginning at a statutory minimum level but varying between organisations. All employees with two years' service are entitled to a statutory redundancy package, calculated on the following basis:
- ½ week's pay for each year of service under the age of 22;
 - 1 week's pay for each year of service between age 22 and 40; and
 - 1 ½ week's pay for each year of service after the age of 41.
219. Only full years of employment qualify for statutory redundancy and the weekly pay is capped at £430. Service length is capped at 20 years. The maximum payment under the

statutory provisions is therefore £12,900. In a review of 43 public and private organisations in 2011, Incomes Data Services (IDS), an employment research organisation, found that more than a third of organisations restrict payment to the statutory minimum.¹²⁶

220. Where employers provide payments above the statutory minimum, the basis of calculation varies considerably. There have been recent changes in the approaches adopted by many organisations, partly because of age discrimination legislation and partly to contain costs. The IDS study showed that, of the 62% of employers which paid more than the statutory minimum redundancy payments, 20% set a minimum level of payment and 42% set a maximum. The maximum total redundancy payment identified by IDS was 24 months' salary, of which there are examples in both the public and private sectors.

221. A study by the Chartered Institute of Personnel Development (CIPD)¹²⁷ in 2008 revealed the following average individual redundancy payment figures:

- Public Sector - £17,926;
- Private Sector - £8,981; and
- Voluntary Sector - £7,629.

The public sector

222. Redundancy payments in the public sector tend to be higher than the private sector and are generally part of a formal, union-agreed policy. Most organisations offer payments which are more generous than statutory redundancy. The Civil Service and some local authorities have recently reduced their packages in response to spending pressures. The NHS currently offers one of the most generous schemes and provides payments of one month's uncapped pay per year of service, up to a maximum of two years' pay.

223. Some schemes offer different terms for voluntary exits versus compulsory redundancy. The Civil Service Compensation Scheme, for example, provides for payments for voluntary redundancy of one month's pay per year of service up to a maximum of 21 months' pay, whilst compulsory redundancy is capped at 12 months' pay. Local authorities differ in their policies and there is at least one recent example of an authority reducing its redundancy payment levels.

¹²⁶ *IDS HR Study - Managing Redundancy*. Published in March 2012 (Data collected Nov/Dec 2011).

¹²⁷ *CIPD Labour Market Outlook Quarterly report – Autumn 2008*.

The private sector

224. In the private sector, the maximum formal level of payment we have encountered is 24 months' pay, although this level is rare. In contrast to the public sector, many employers do not have a published, union-agreed policy and those who do invariably describe the policy as discretionary, which enables the employer to tailor the payments to the circumstances of the redundancy programme.

Outplacement

225. Private sector employers (and some public sector) sometimes offer outplacement services directed at helping redundant staff to find alternative employment, generally in a job similar to the one they previously held. These outplacement services typically include CV or interview training, or assistance with job searches. There is evidence that approximately 40% of organisations offer some form of outplacement, although these kind of outplacement services are most often offered to senior executives (with whom MPs often compare themselves) and organisations where redundant staff are likely to have to start different careers, such as the armed forces and the police. The armed forces and the police often provide more in-depth support, including personalised retraining and mentoring.

Members of Parliament

226. As discussed in Chapter 2, IPSA consulted the public on the issue of resettlement payments for MPs in autumn 2011. Following the consultation, we introduced an interim system that would provide MPs who lost their seat at a general election before 2015 with a resettlement payment of up to six months' salary, based on the length of time that the MP had served. As we explained in our *Report on the Consultation* we restricted the eligibility to MPs who stood and lost a seat at an election in order to mirror as closely as possible the experience of ordinary citizens, most of whom do not receive redundancy payments when they voluntarily leave a post.¹²⁸

227. Some have argued that it would be simpler and fairer to make resettlement payments to all MPs who leave the House of Commons. We do not currently propose to extend eligibility in this way, but are willing to consider contrary views.

¹²⁸ Available on our website www.parliamentarystandards.org.uk

In 2006 the Association of Former Members of Parliament commissioned a report on the experience of former MPs leaving Parliament. The study included a survey of MPs, of which 184 responses were received, and looked at a variety of factors affecting MPs leaving Parliament, including re-employment. Although the final report did not specifically address the question of resettlement payments, it did identify several trends which should be considered when reviewing resettlement payments, such as:

- 7% of MPs highlighted problems with a drop in income (in its Work Audit report published in March 2012, the CIPD reports that two-thirds of people made redundant are paid less in the next job they find. On average, the drop in pay is 28%).
- 9% of MPs reported that they had no job to go to after leaving Parliament;
- 28.5% of MPs were able to return to a career or the employment that they had before entering Parliament;
- Most ex-MPs do not enter employment for over three months;
- If a large number of MPs leave Parliament at the same time, as for example they did in 1997, the average time to find employment increases.
- 53% of respondents in the study reported having no financial problems upon leaving the House.

228. Our current system was introduced on an interim basis. We now need to consider what the right solution is for the election expected in 2015 and thereafter. Our initial starting point is that the level of payments we introduced on an interim basis should be continued. We regard the level as sufficiently generous to support MPs as they adjust to a non-Parliamentary life. But we recognise that some have argued that such payments for defeated MPs are overly generous, or are not required at all. In the context of a system of fixed-term Parliaments, where MPs know that they are likely to be subject to an election every five years, it could be argued that resettlement payments are inappropriate as MPs should be planning for the possibility of defeat.

229. Having weighed the arguments, we plan to continue the interim system, as it provides useful support to those who involuntarily lose their positions, much as employees outside Parliament would receive. We therefore focus below on whether we should extend the eligibility for the payments and whether there are other forms of support which should be offered.

Q15: Should MPs leaving Parliament after defeat at an election continue to receive resettlement payments?

What does 'involuntarily' mean?

230. At present, only MPs who stand at an election and are defeated are eligible for a resettlement payment. This is a significant tightening of the previous system, which provided a resettlement payment to any MP who left the House at any point in the electoral cycle. At the election in 2010, 220 MPs received a resettlement payment.
231. It has been put to us that the restrictions in our current system could drive perverse behaviour. In particular, it could lead an MP who planned to retire to stand for re-election in the hope of losing the election and getting a resettlement payment. While we agree that this risk exists, we think it is greatly reduced by the controls that we have put in place: in particular, the rule that in order to qualify for a resettlement payment, the MP must stand in and lose the election for the same seat that they represented in the previous Parliament. In our electoral system, relatively few of the 650 seats change parties at elections and sitting MPs are likely to have a strong local party organisation, which will fight hard to retain the seat. We find it unlikely that many MPs who wished to stand down would risk the possibility of fighting and winning an election battle, simply to receive a resettlement payment. We do not therefore find this a persuasive argument for extending the eligibility criteria.
232. We are more concerned with the argument that our current eligibility criteria exclude some MPs who genuinely leave the House of Commons involuntarily. It has been put to us that some MPs who wish to stand for election are deselected by their political parties. As the MP is unlikely to have the personal resources to stand for re-election without the support of the party, they would then be leaving the House of Commons involuntarily but would not be eligible for a resettlement payment.
233. We have concerns about how, in the absence of any formal and official selection process, the fact of deselection could be fairly and impartially judged. For instance, it has been put to us that it is possible that in an attempt to ensure that the MP would receive a resettlement payment, the local party may formally "deselect" the sitting MP, even if there was no real intention to stand again.
234. While this risk is, in our view, small, the potential for inappropriate personal gain exists and we should take all reasonable steps to avoid its occurrence. It is difficult to see how the risk of this could be completely avoided, without also excluding some legitimate applications for the payment. And while there may be other sources of the information

on deselected MPs, such as the central party structure, those sources are also unlikely to be without complication. In the absence of any clear and robust mechanism to implement this proposal, we do not propose to extend the eligibility criteria to include deselected MPs.

235. Some commentators have argued that we should extend the eligibility for the resettlement payment to all MPs leaving the House of Commons, effectively reintroducing the system which operated up to 2010. This is on the basis that MPs are different from the rest of the population in that when they lose their seats they have no prospects of redeployment internally, do not benefit from official arrangements to take time off to seek alternative employment and do not receive formal notice of termination of employment. It has been also argued that MPs who are close to Normal Pension Age may step down at the election immediately before they turn 65, thereby losing an element of their pension (which will be reduced as they are taking it early) or alternatively leaving Parliament when they turn 65 and triggering a by-election, at significant cost to the taxpayer. We have so far resisted these arguments to extend the eligibility criteria further, on the grounds that this would put MPs out of step with normal employment practice and that in the absence of a voluntary exit scheme, ordinary citizens do not receive resettlement payments when they leave employment voluntarily.

The Boundary Reviews

236. While recent developments on constitutional reform have made the reforms less likely, it is possible that the political landscape for the 2015 election will be changed by the boundary reviews. The Boundary Commissions for England, Wales, Scotland and Northern Ireland are reviewing the boundaries of the parliamentary constituencies, to reflect the Parliamentary Voting System and Constituencies Act 2010 which reduces the number of MPs to 600 (from 650) and requires the constituencies to have a roughly equivalent number of electors. The results of these reviews, if implemented, would inevitably lead to some MPs losing their seats – either because their constituency is abolished or merged with another, or because the boundaries are significantly redrawn and the MP is unable to secure candidacy for a successor seat. It is not clear at this stage whether the boundary reviews will pass their remaining legislative hurdles and be implemented in time for the general election expected in 2015. However, as MPs are already considering their plans in light of the reviews' possible implementation, it is important to establish now whether MPs should, in the above circumstances, be eligible for a resettlement payment.

237. If the boundary changes are implemented in time for the next election, MPs are likely to leave Parliament in one of four ways:

- they stand in their existing seat, or another seat and are defeated;
- they are deselected by their own party;
- they are not selected to fight for the successor seat (if any) and are unable to secure selection for another seat; or
- they do not seek selection for their existing seat or another seat.

238. Where a constituency remains largely intact and the MP fights the seat and loses, they would be eligible for a resettlement payment under our existing policy. However, the proposed changes are likely to merge some seats and involve significant change to many others, leading to a large number of sitting MPs having no identifiable successor constituency. In these circumstances, our current policy would not provide a resettlement payment to MPs who stood for election to a different seat. We believe, in light of the widespread changes to boundaries, this would be unfair and that MPs who successfully seek selection to another seat but are defeated at the general election should be entitled to receive a resettlement payment.

239. It is arguable that MPs who seek but are not successful at gaining selection for another seat are analogous to an ordinary employee whose position is redundant and who is unsuccessful at getting another post within the company. In the special circumstances of an election following significant boundary changes, we propose to ask the political parties for assistance in identifying MPs who have left Parliament after unsuccessfully seeking nomination for another constituency, in order to provide a resettlement payment. However, this will not be simple to implement fairly and there is clearly a risk of a perverse incentive: an MP who wishes to stand down could seek selection to another seat and put in a half-hearted performance, to ensure that they are unsuccessful, purely to receive a resettlement payment. We would welcome views on how likely this situation is to occur, and how it could be prevented.

Q16: Do you agree that, in the event that the boundary changes are introduced before the general election due in 2015, we should extend the eligibility criteria for resettlement payments to include MPs who seek candidacy or election for another seat and are unsuccessful?

Other options for resettlement support

240. As noted above, when other employees are made redundant some employers offer alternative forms of resettlement support, such as CV or interview skills training, or help with finding a new job. We consider that some MPs might find these kinds of support useful and would like to offer them to MPs who receive the resettlement payment, in addition to the payment. MPs that are not eligible for the resettlement payment would not be eligible for this additional support.

241. While the costs for this kind of support will vary according to the needs of the individual MP, a day-long course in CV and interview skills training costs from £250-£1000. We would envisage that MPs would be able to spend up to £1000 on recognised training which we would reimburse through our online expenses system.

Q17: Do you believe that we should provide outplacement support in addition to the resettlement payment for eligible MPs?

CHAPTER 12: THE COST OF SUPPORT TO MPs

Setting the Costs in Context

242. In 2011-12 IPSA spent just under £140m on MPs' salaries, MPs' staff and MPs' business costs and expenses. IPSA's operating cost was £6.4m. So, in total, the costs of paying and supporting MPs in their parliamentary duties, in those areas which are covered by IPSA's expenditure, amounted in 2011-12 to £146.3m. A further £13.6m was spent on taxpayer contributions towards the MPs' Pension Scheme. The table below shows the costs for 2011-12 and IPSA's budget for 2012-13, agreed in June 2012 by the Speaker's Committee for IPSA. There are, of course, many other costs in supporting parliamentary democracy – the House of Commons (whose net operating costs were £201.2m in 2011-12), some state funding (Short Money) for opposition political parties (£6.6m in 2011-12), funding for party political broadcasts and the administration of elections, for example.

243. Table 16 outlines the costs for which IPSA is now responsible, including MPs' pension contributions, which are funded by the taxpayer through the House of Commons Pensions Unit.

Table 16: Spending by IPSA on supporting MPs, and other parliamentary costs¹²⁹

Category of expenditure	Outturn 2011-12 (£m)	Budget for 2012-13 (£m)
MPs' salary (and NICS)	48.4	48.6
<i>Of which Select Committee Chairs and members of the Panel of Chairs</i>	<i>0.9</i>	<i>0.9</i>
MPs' staff costs (including pensions)	67.1	86.2
Capped business costs and expenses	18.8	24.1

¹²⁹ IPSA total expenditure figure may differ from sum of individual figures because of rounding. "Other costs" comprised: in 2011-12 winding up costs; in 2012-13, sum of contingency budget, legal expenses insurance and programme income. The contingency spend in 2011-12 is subsumed in individual categories. IPSA outturn figures taken from Annual Report and Accounts 2011-12. IPSA budget figures taken from the Consideration of IPSA's Estimate 2012-13, by SCIPSA, 1 June 2012. House of Commons net operating costs taken from House of Commons Administration Annual Accounts 2011-12. Short money figure taken from House of Commons Members Annual Accounts and Audit Committee Annual Report 2011-12. SCIPSA and House of Commons information available on www.parliament.uk

Uncapped business costs and expenses	5.6	7.4
Other costs	0.1	2.5
TOTAL IPSA EXPENDITURE ON MP SUPPORT	139.9	168.9
Exchequer contribution to MPs' pension scheme	13.6	
IPSA administration and regulation	6.4	6.0

Potential Reduction in Parliamentary Constituencies

244. The government's proposals to reduce the number of Parliamentary constituencies are now in doubt, following the abandonment of House of Lords reform in this Parliament. Were there to be a reduction in the number of MPs from 650 to 600, initial savings, based on the IPSA budget for 2012-13 of £168.9m, could be in the region of £13m.

Potential savings in Exchequer contribution to MPs' pension scheme

245. Currently, the combined MPs' and Exchequer contribution to the MPs' Pension Scheme to allow it to operate cost neutrally (the standard contribution) is 32.4% of pensionable payroll of £41.7m, according to GAD's calculations for 1 April 2011. Of this 32.4%, the Exchequer contributes 20.4%, which amounts to £8.5m. In the reference scheme, described in Chapter 9 of the paper, the Exchequer contribution is assumed to fall to 15.43% (out of a total of contribution of 24.5%). This would amount to £6.43m. Therefore the potential saving to the Exchequer from a move to the reference scheme is around £2m a year.

Cost of resettlement payments

246. In 2005, resettlement payments cost the House of Commons authorities £5.3m, with 135 MPs leaving the House. Although the equivalent total amount paid in 2010 has not been published, the House of Commons has said that 220 MPs received a payment and so the total amount paid would most likely have been higher than in 2005. This represented an unusually high turnover of seats. Our interim resettlement arrangements allow MPs who have lost their seats up to six months of salary. Only those

with less than six years' service would get less. To provide a sense of the potential scale of costs, the interim arrangement would cost £3.3m if 100 MPs lost their seats and £6.6m if 200 MPs lost their seats.

Cost of Implementation

247. Some of these proposals would attract a cost for implementation. For instance, if we were to apply a differential basis to MPs' pay, there would be some work involved in determining the individual pay levels for each MP. These costs would fall to IPSA. Similarly, some of the work to implement a new pension scheme (such as legal advice and changes to IT systems) will incur costs. Some of these costs would fall to IPSA and some to the Trustees of the Pension Fund. We will ensure that the package of remuneration that we present for public consultation in the spring of 2013 is fully costed, so that the costs of the package can be seen in the round.

CHAPTER 13: HOW TO RESPOND TO THIS CONSULTATION

248. In this consultation, we have set out our views on the issues facing us as we take on the task of setting a new remuneration package for MPs. We now invite your views on the questions listed on pages 6 and 7. We will analyse the responses to this consultation, alongside other evidence we receive, and will consult the public again in the spring of 2013. You may respond via email, letter, or using the online survey on our website www.parliamentarystandards.org.uk.

249. The consultation runs from 15 October to 7 December 2012. Please ensure that you send your response before the closing date as responses received after 7 December 2012 may not be considered.

250. Responses should be sent to mppayandpension@parliamentarystandards.org.uk. Please include in the subject line "Consultation Response." Responses should be in plain or rich text format, with as little use of colour or logos as possible. If you do not have access to email, you may send your response to:

*MPs' Pay & Pensions Consultation Responses,
Independent Parliamentary Standards Authority,
7th Floor, Portland House,
Bressenden Place,
London SW1E 5BH*

251. You may wish to note that **responses will be published in full, including your name, unless you indicate otherwise when submitting the response. If you do not wish your response to be published, either in full or anonymously, please state this clearly.**

252. If you require a hard copy of the consultation document please email mppayandpension@parliamentarystandards.org.uk or write to IPSA at the address above.

DATA ANNEX

1. Comparisons with MPs' salaries in other legislatures

- Graph 1: Comparison of MPs' salaries in legislatures overseas
- Graph 2: Members' salaries in devolved legislatures in the UK
- Table 1: Detailed comparison of MPs' salaries in legislatures overseas
- Notes and list of sources

2. Comparisons with national average earnings

- Table 1: National average earnings multiples

3. Trends in MPs' pay compared with other measures

- Graphs and tables by IPSA and DLA Piper showing growth of MPs' pay in comparison with various indices.

4. Resettlement payments to MP

- Table 1 - Calculation of Resettlement Payments under previous House of Commons scheme
- Table 2 - Resettlement Payments to MPs at 2001 and 2005 Elections

5. Public engagement on IPSA's website: poll results

6. Public engagement on IPSA's website: online survey results

1. Comparisons with MPs' salaries in other legislatures

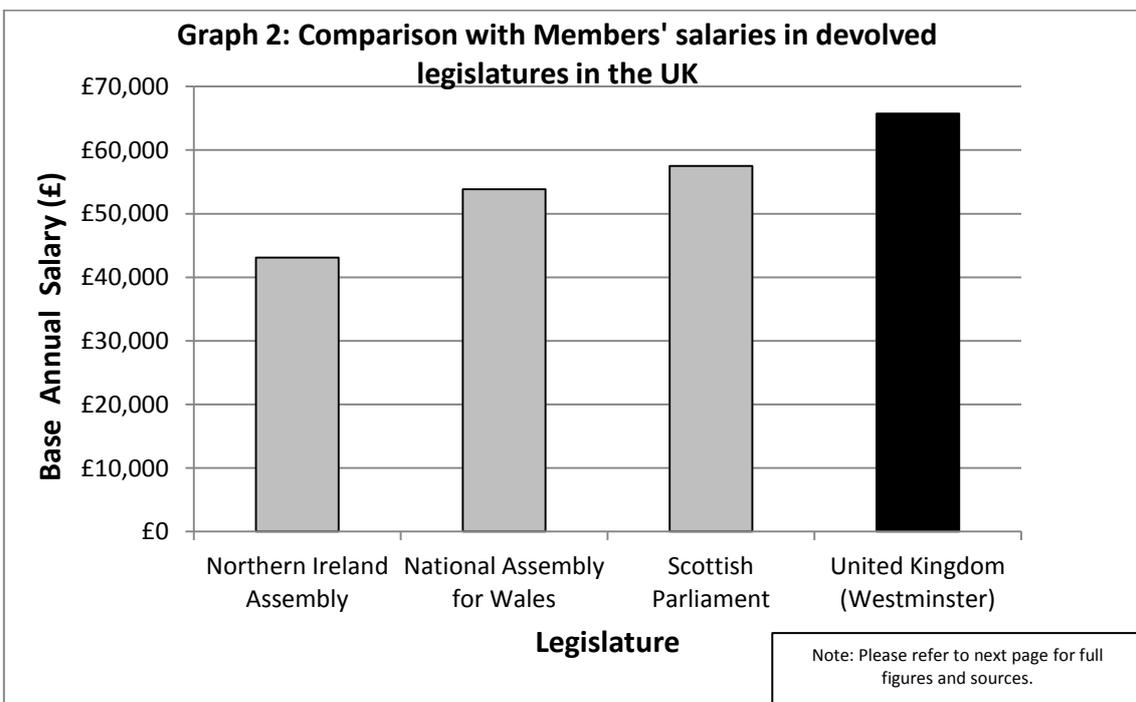
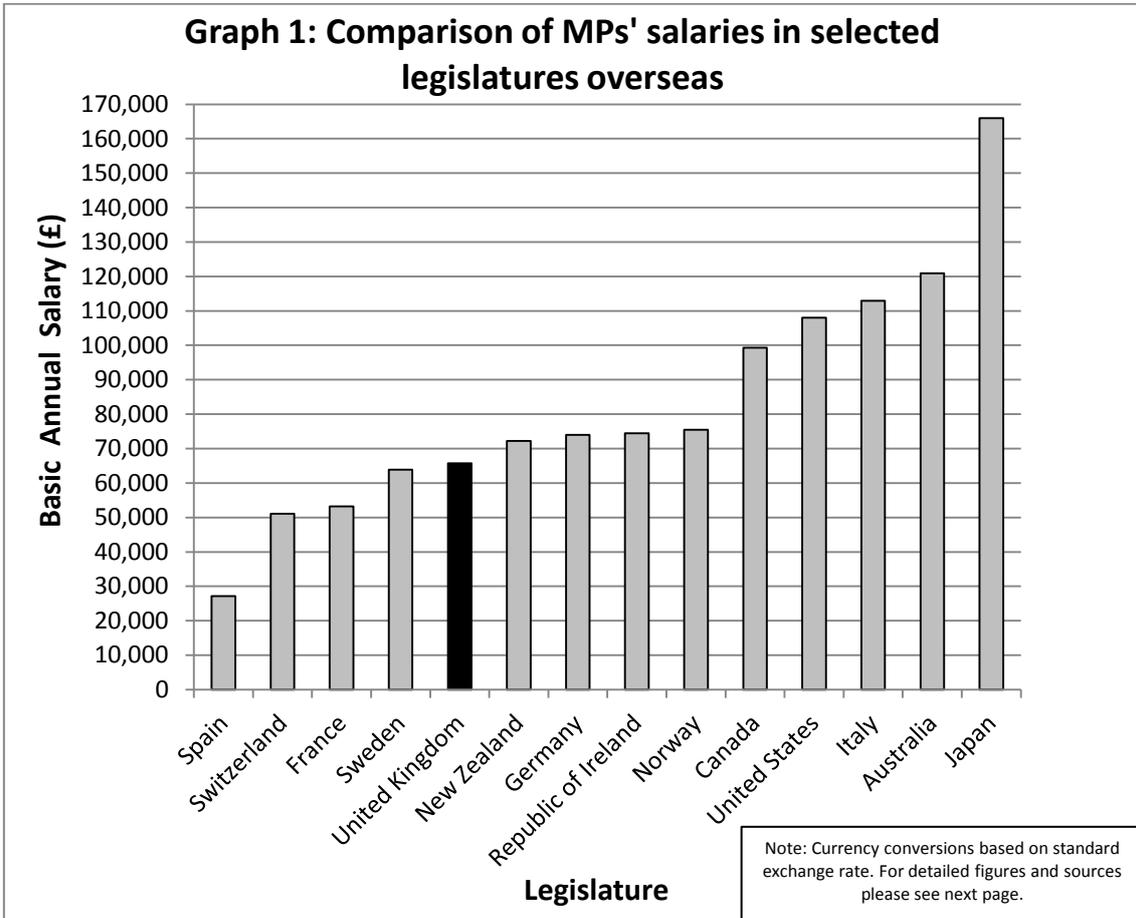


Table 1: Detailed comparison of MPs' salaries in other legislatures

Other legislatures	Annual basic salary (national currency)	Exchange rate (units of currency per £)¹³⁰	Equivalent in £ (standard rate)
Spain	€33,766	1.24	27,130
Switzerland*	CHF 77,000	1.51	51,075
France	€ 66,176	1.24	53,186
Sweden	SEK 684,000	10.71	63,844
UK (Westminster)	£ 65,738	1	65,738
New Zealand	\$ NZD 141,800	1.96	72,193
Germany	€ 92,016	1.24	73,953
Ireland	€ 92,672	1.24	74,495
Norway	NOK 696,900	9.23	75,468
Canada	\$ CAD 157,731	1.59	99,322
United States	\$ USD 174,000	1.61	108,032
Italy	€ 140,444	1.24	112,898
Australia	\$ AUD 190,550	1.58	120,875
Japan*	¥21,000,000	126.60	165,945

* Based on *average* annual salary.

Notes:

- Comparisons based on gross basic annual salary before tax and pension contributions and without expenses or allowances, for a member of the national parliament (in nearest equivalent position to a UK House of Commons MP without additional responsibilities such as chairing a Committee).

¹³⁰ All currencies converted to GBP using standard exchange rate from www.xe.com (as at 4 October 2012).

List of sources:

- **Northern Ireland, Spain, Switzerland, Wales, Scotland, New Zealand, Republic of Ireland, Canada, Australia:** Direct responses to questionnaire created by IPSA, sent to official sources (embassies and relevant government departments), May-June 2012.
- **Australia (updated salary data):** Remuneration Tribunal report “Determination 2012/15 – Members of Parliament – Base Salary, Entitlements and Related Matters: Reasons for Determination”, <http://www.remtribunal.gov.au/statementsreports/2012/2012-15%20Det%20Statement%20of%20Reasons.pdf>, 19 June 2012.
- **Spain (additional salary data):** Official Congreso website, Congreso de los Diputados, “Régimen Económico Y Ayudas De Los Señores Diputados”, 27 December 2011, http://www.congreso.es/portal/page/portal/Congreso/Congreso/Diputados/RegEcoyProSoc/regimen_economico_diputados.pdf, accessed 20 August 2012.
- **United States:** direct email correspondence with Embassy (June 2012), and Congressional Research Services papers, <http://www.loc.gov/crsinfo/>.
- **Sweden:** Official Sveriges Riksdag website, <http://www.riksdagen.se/en/How-the-Riksdag-works/Members-and-parties/Pay-and-economic-benefits/Members-pay/>, updated 7 January 2012, accessed 20 August 2012.
- **Norway:** Official Stortinget website, “Financial Support for MPs”, most recent figures 1 May 2009, <http://www.stortinget.no/en/In-English/Members-of-the-Storting/Financial-support/> (accessed 20 August 2012)
- **Italy:** Official Chamber of Deputies website, “Remuneration”, <http://english.camera.it/deputatism/4385/documentotesto.asp>, accessed 20 August 2012. Based on 12x monthly allowance of €11,703.64 *before* deductions for social security, health care, life annuity and withheld income tax, excluding other allowances.
- **France:** Official Assemblée Nationale website, <http://www.elections-legislatives.fr/en/mps.asp>, most recent figures 1 July 2010, accessed 20 August 2012.
- **Germany:** Official Deutscher Bundestag website, “Amount of Members' remuneration”, http://www.bundestag.de/htdocs_e/bundestag/members17/remuneration/memre.html most recent figures 1 January 2009, accessed 20 August 2012.
- **Japan:** "Politicians' pay: Even more than you think", *The Japan Times*, by Philip Brasor & Masako Tsubuku, 13 December 2011: <http://blog.japantimes.co.jp/yen-for-living/politicians-pay-even-more-than-you-think/> (accessed 22 June 2012); and "Politicians hope you don't notice when their pay goes back to normal", *The Japan Times*, by Philip Brasor & Masako Tsubuku, 12 October 2011 : <http://blog.japantimes.co.jp/yen-for-living/politicians-hope-you-dont-notice-when-their-pay-goes-back-to-normal/#more-2921> (accessed 22 June 2012).

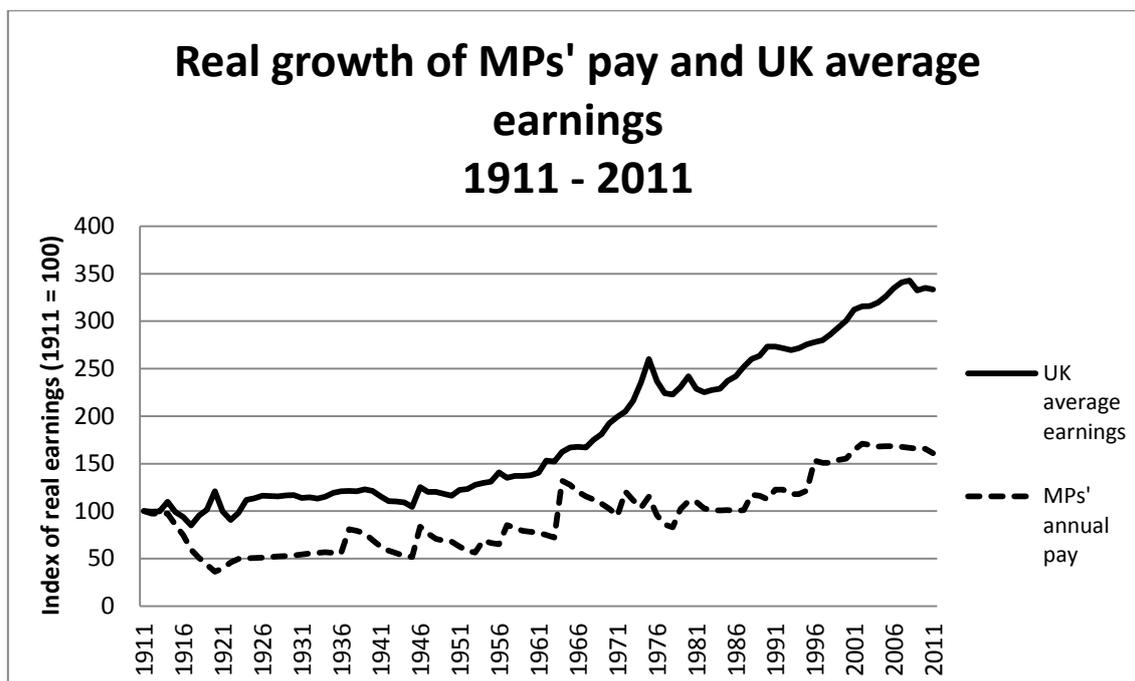
2. Comparisons with national average earnings indices

Table 1: National average earnings multiples

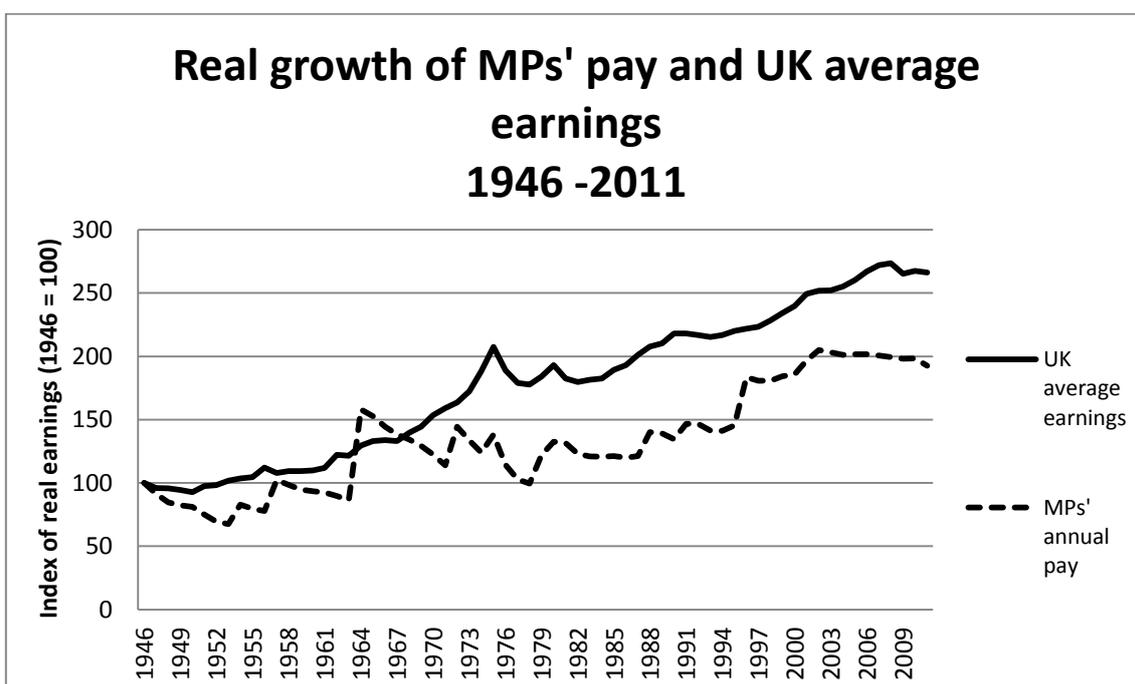
Index	Date	Index figure	Calculation	Annual salary equivalent
Average Weekly Earnings (AWE) (whole economy) ¹³¹	June 2012	£442/week	£442 x 52 weeks	£22,984
Average Weekly Earnings (AWE) (public sector only)	June 2012	£480/week	£480 x 52 weeks	£24,960
Average Weekly Earnings (AWE) (private sector only)	June 2012	£432/week	£432 x 52 weeks	£22,464
AWE (whole economy) x1.5	June 2012	-	£22,984 x 1.5	£34,476
AWE (whole economy) x2	June 2012	-	£22,984 x 2	£45,968
AWE (whole economy) x2.5	June 2012	-	£22,984 x 2.5	£57,460
AWE (whole economy) x2.86 <i>CURRENT MP SALARY</i>	June 2012	-	£22,984 x 2.86	£65,738
AWE(whole economy) x3	June 2012	-	£22,984 x 3	£68,952
AWE(whole economy) x3.5	June 2012	-	£22,984 x 3.5	£80,444
AWE (whole economy) x4	June 2012	-	£22,984 x 4	£91,936
Annual Survey of Hours and Earnings (ASHE) ¹³²	2011	-		£26,100

¹³¹ The Average Weekly Earnings (AWE) is the Office of National Statistics' lead measure of short-term earnings growth. Calculated using the most recent Average Weekly Earnings data (June 2012) for the whole economy (£442/week), multiplied by 52 weeks for annual figures. AWE data are based on average weekly regular pay for workers in Great Britain excluding bonuses. From "Labour Market Statistics, August 2012", Office of National Statistics, 15 August 2012, http://www.ons.gov.uk/ons/dcp171778_273802.pdf.

3. Trends in MPs' pay compared with other measures



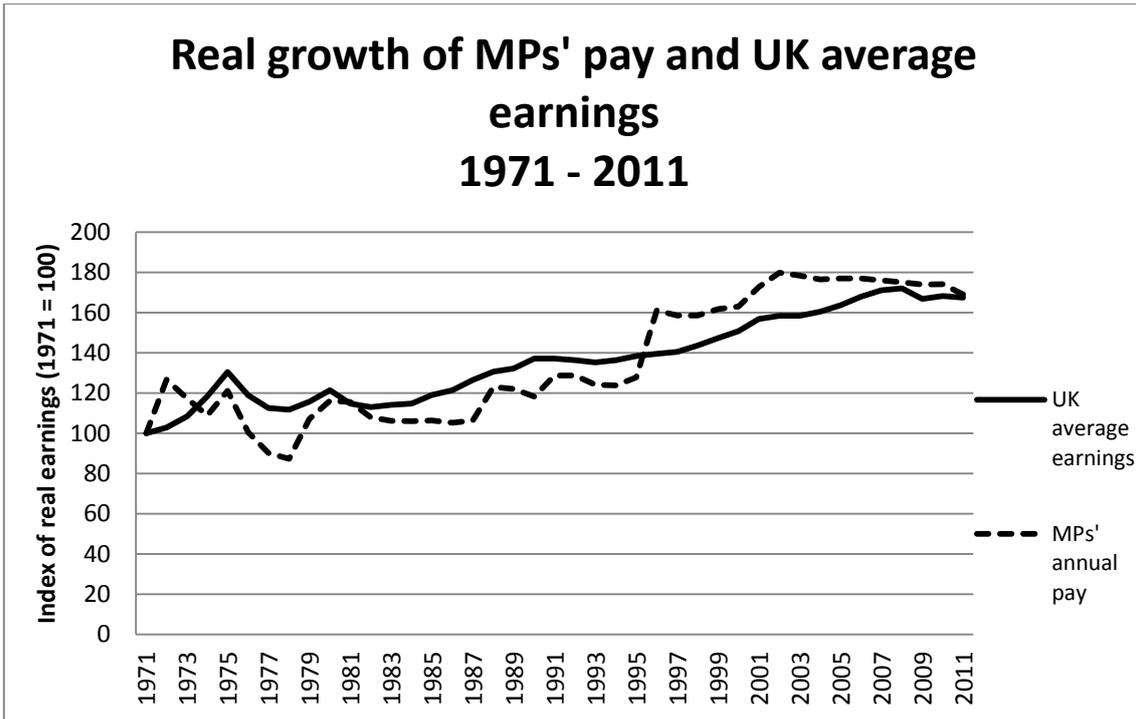
Source: IPSA (see notes)¹³³



Source: IPSA (see notes)¹³⁴

¹³² Median gross annual earnings for full-time employees (including those whose pay was affected by absence) based on the ASHE were £26,100, from "Statistical bulletin: 2011 Annual Survey of Hours and Earnings (based on SOC 2010)", released 21 March 2012, <http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2011-provisional-results--soc-2010--stb---ashe-results-2011--soc-2010-.html>

¹³³ The graph above shows the relationship between MPs' pay and UK average earnings in money of the day.



Source: IPSA (see note)



Source: IPSA (see note)

¹³⁴ We used MPs' pay data from the House of Commons Library and average earnings from "Measuring Worth" (<http://www.measuringworth.com/index.php>). The way average earnings are measured has changed over time but Measuring Worth has adapted the figures to provide a consistent time series. The methodology is explained on their website. The money of the day figures were converted into real terms using a GDP deflator time series. 1911-54 from Measuring Worth, 1955-2011 from HM Treasury statistics.

Graph of MPs' actual salary (indexed to 100) compared with changes in different indices: 1997-2012¹³⁵

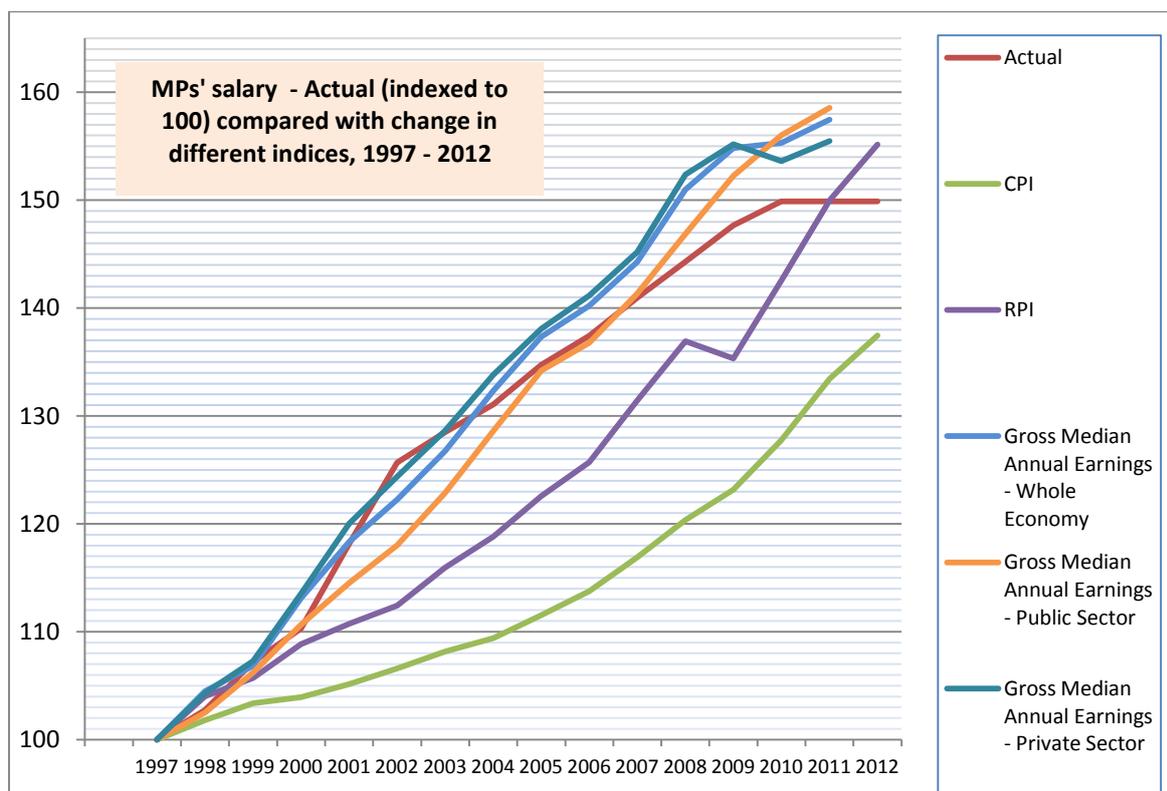


Table 1: Comparison of actual changes in MPs' salary with changes in different indices: 1997-2012¹⁴²

Index	% change in index from 1997 to 2011	What MPs' pay would have been in 2011 if it had been linked to each index since 1997
Actual Change in MPs' pay	49.9%	£65,738
CPI	33.5%	£58,529
RPI	50.0%	£65,776
Median Gross* Annual Earnings - whole economy	57.5%	£69,066
Median Gross* Annual Earnings - public sector	58.6%	£69,549
Median Gross* Annual Earnings - private sector	55.5%	£68,197

Note: The graph and table below above the actual increase in MPs' pay over the period 1997-2011 (or 2012) in comparison with the change in CPI, RPI and median gross annual earnings in the same period. 1997 was chosen as the starting date, thus avoiding the significant catch-up pay increase in 1996. Gross median annual earnings are based on the ONS's Annual Survey of Hours and Earnings (ASHE), which is shown only up until 2011 as figures for 2012 have not yet been published.

¹³⁵ Source: "Review of MPs' Pay and Pensions: Salary Indexation and Committee Chairs," DLA Piper, 24 August 2012, Annex B, using data from ONS. Paper commissioned by IPSA.

4. Resettlement payments to MPs

Table 1: Calculation of Resettlement Payments under previous House of Commons scheme¹³⁶

Percentage of Yearly Salary Payable as Resettlement Grant							
Age	Number of completed years						
	Less than 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
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
Over 70	50	50	50	50	50	50	50

Table 2: Resettlement Payments to MPs at 2001 and 2005 Elections

Election	Number of MPs leaving	Average Grant (all MPs)	Cost	Number of MPs who were defeated	Average Length of service of those defeated	Average Grant (defeated MPs only)
2001	99	62% of final salary	£3.2m	21	8.5 yrs	48% of final salary
2005	136	64% of final salary	£5.3m	50	8.6 yrs	60% of final salary

Note: Following the 2010 General Election, the House of Commons published a list of the 220 retiring MPs who received resettlement grants, but it has not published the amounts paid (although they could be individually calculated using information in the public domain).¹³⁷

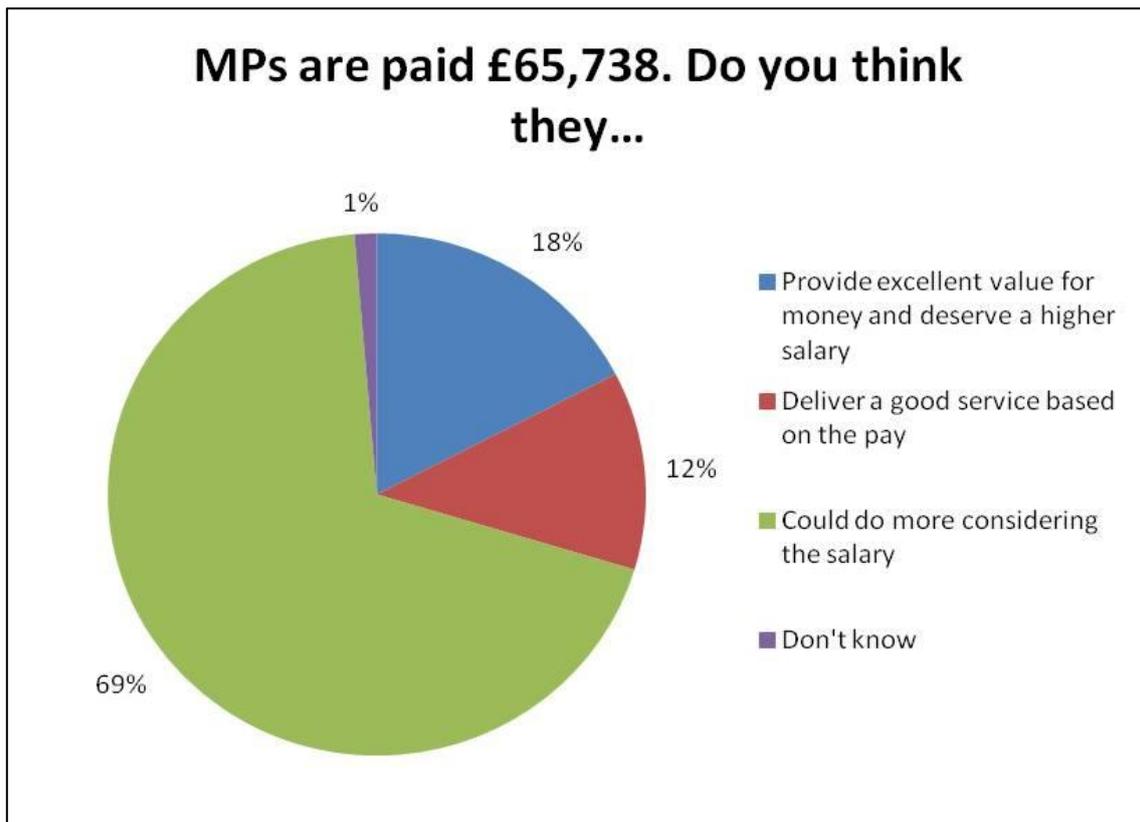
¹³⁶ House of Commons Members Estimate Committee. *Review of Allowance: Third Report of Session 2007-2008 Volume 1*. 23 June 2008. Available at <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmmemest/578/578ii.pdf> (accessed 25 July 2012)

¹³⁷ UK Parliament Website. Former Members in receipt of an award from the Resettlement Grant. 1 April 2011. Available at <http://www.parliament.uk/site-information/foi/foi-responses/foi-disclosures-2011/foi-disclosures-april---june-2011/former-members-in-receipt-of-an-award-from-the-resettlement-grant-1-april-2011/>. Accessed 25 July 2012.

5. Public engagement on IPSA’s website: poll results

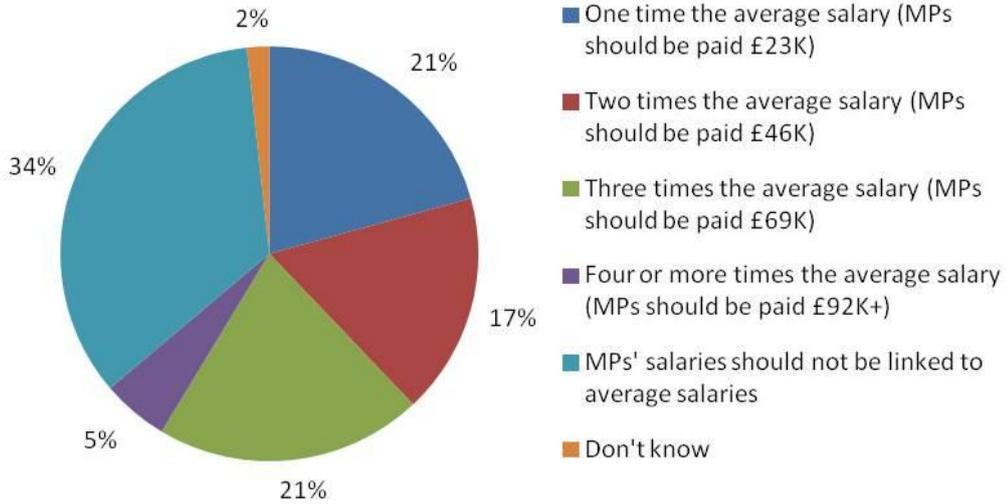
IPSA published 5 separate polls on its website (www.parliamentarystandards.org.uk) from May-August 2012. A total of 1095 responses were received and the final results are shown below.

Poll 1: 1 May 2012 Total votes: 823



Poll 2: 11 May 2012 Total votes: 58

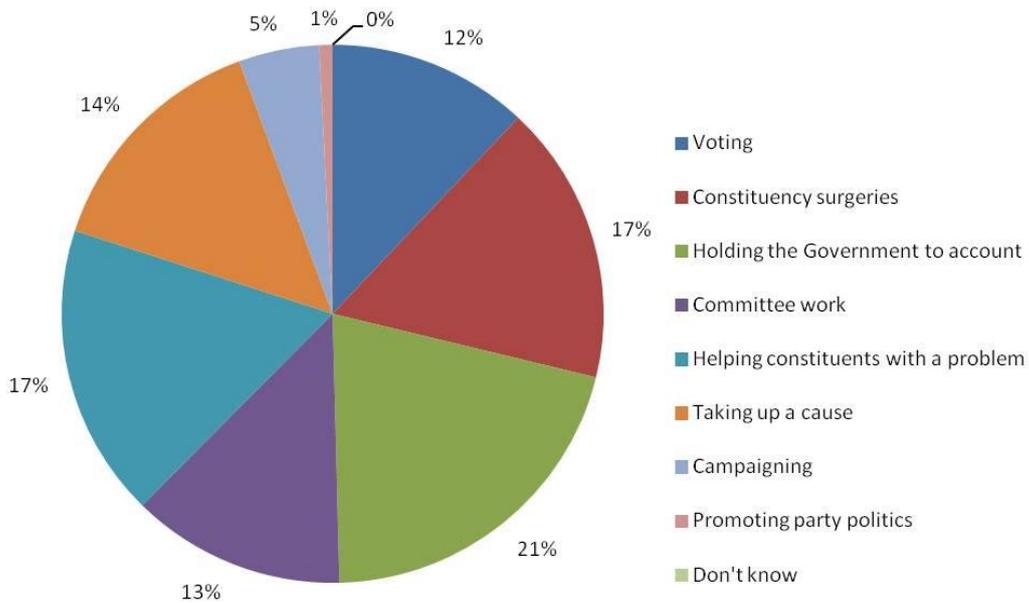
The national average salary is £23K. Some people think MPs' pay should be related to this salary. Should it be:



Poll 3: 24 May 2012

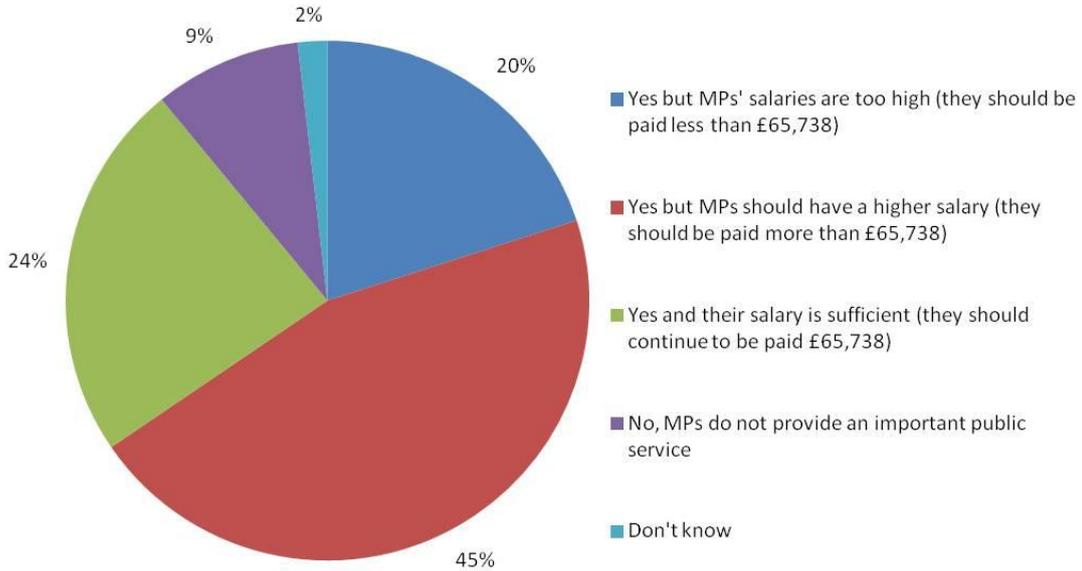
Total votes: 125 (Note: a person could vote for more than 1 category)

Tony Wright suggests that the public would be happier paying MPs for some kinds of activity rather than others. Which activities would you support?



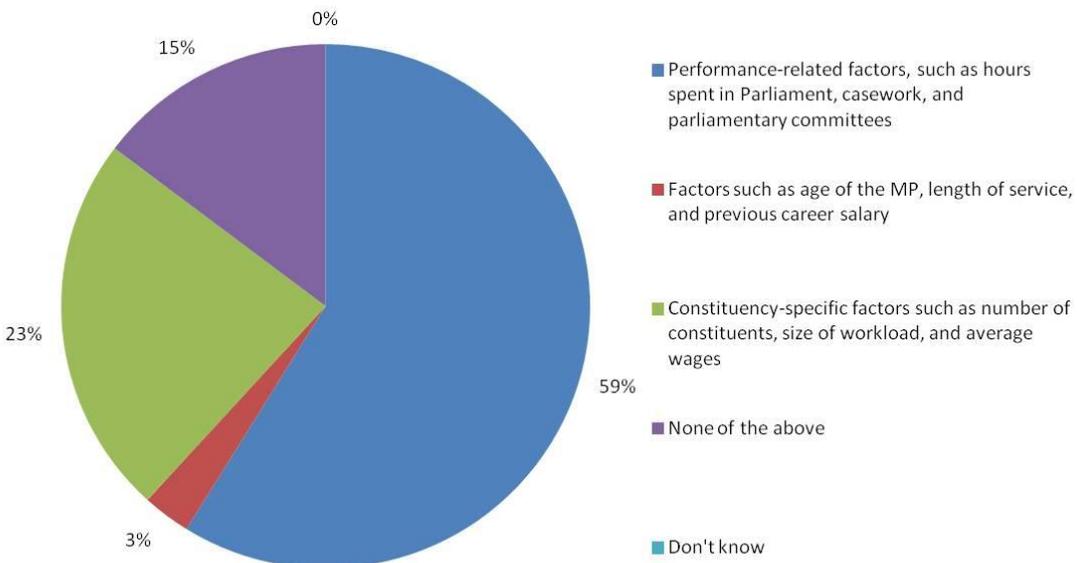
Poll 4: 20 June 2012 Total votes: 55

Peter Riddell writes that being an MP is an important public service which should be paid accordingly. Do you agree?



Poll 5: 27 July 2012 Total votes: 34

What are the most important factors in the consideration of an MP's pay?



6. Public engagement on IPSA’s website: survey results

IPSA published a 9-question public survey on its website

(www.parliamentarystandards.org.uk), which ran for 3 months from 2 May – 4 August 2012.

A total of 1850 people responded and the final results are shown below.

Question 1: Please let us know if you are a member of the public, an MP or work for an MP. This information will be used to assist IPSA’s analysis of responses.

Respondents		
	Base	100%
		Total: 1850
I am a member of the public	97.3%	1800
I am an MP	0.8%	14
I work for an MP	1.9%	36

Question 2: MPs’ salaries and part of their pensions are paid for by the public. As “office holders” they have no employer and they do not have a job description. For the purposes of the review of MPs’ pay and pensions, what type of workers do you consider MPs to be most comparable to?

Respondents	Total: 1850	Public sector workers	Private sector workers	Third sector/civil society workers	None of these comparators are suitable	Don't know
Base	100%	61.4%	4.4%	7.9%	25.0%	1.2%
I am a member of the public	97.3%	60.2%	4.3%	7.9%	23.7%	1.2%
I am an MP	0.8%	0.2%	0.1%	0.1%	0.4%	0.1%
I work for an MP	1.9%	1.0%	-	-	0.9%	-

Question 3: MPs currently receive a base salary of £65,738 per year. How much do you think MPs should be paid?

Respondents	Total:1850	£0-£20,000	£20,000-£40,000	£40,000-£60,000	£60,000-£80,000	£80,000-£100,000	£100,000-£120,000	Over £120,000	Don't know
Base	100%	3.1%	21.4%	29.7%	19.5%	12.5%	8.9%	4.3%	0.5%
I am a member of the public	97.3%	3.1%	21.4%	29.6%	19.0%	11.3%	8.3%	4.2%	0.5%
I am an MP	0.8%	0.1%	-	-	0.2%	0.3%	0.2%	-	-
I work for an MP	1.9%	-	0.1%	0.1%	0.3%	1.0%	0.4%	0.2%	-

Question 4: Legislatures around the world are paid differently. For example, in the United States, members receive an equivalent salary of £109,960, in France £70,461, and £43,101 in the Northern Ireland Assembly. Keeping in mind that there are significant variations in the roles of legislatures in each country (including the size of the respective constituencies), how useful do you think it is to use international comparators to help decide MPs' pay and pensions in the UK?¹³⁸

Respondents	Total	Useful- IPSA should consider international comparators in its review of MPs' pay and pensions.	Not useful at all- IPSA should not pay much attention to international comparators in its review of MPs' pay and pensions.	Don't know.
		24.6%	73.2%	2.2%
<i>Base</i>	100%			
I am a member of the public	97.3%	23.2%	71.9%	2.2%
I am an MP	0.8%	0.5%	0.3%	-
I work for an MP	1.9%	0.9%	1.0%	-

Question 5: Another approach to reviewing MPs' pay could be examining the responsibilities of MPs and then finding a suitable comparator in another profession to base their pay upon. Which of the following comparators do you think would be appropriate to base MPs' salaries on?

Respondents	Total: 1850	Mid-level public sector jobs (such as senior nurses and workers, or deputy head teachers)	Senior public sector jobs (such as GPs, senior army officers or secondary school head teachers)	Top-level public sector jobs (such as heads of government departments or Chief Executives of local authorities)	Mid- level private sector jobs (such as CEOs of medium-sized companies)	Top-level private sector jobs (such as partners in city law or accountancy firms, or senior management consultants)	None- IPSA should not use comparators for its review of MPs' pay and pensions	Don't know
		31.5%	27.0%	8.8%	4.2%	3.7%	23.7%	1.1%
<i>Base</i>								
I am a member of the public	97.3%	31.4%	25.6%	8.3%	4.1%	3.6%	23.2%	1.1%
I am an MP	0.8%	-	0.6%	0.1%	-	-	0.1%	-
I work for an MP	1.9%	0.1%	0.8%	0.4%	0.2%	0.1%	0.4%	-

¹³⁸ The exchange rates used at the time of this question are different to those used elsewhere in this paper.

Question 6: There are differing views about the value of MPs having had experience in other job before they enter Parliament. Do you think pay should in any way be related to previous experience?

Respondents	Total: 1850	Yes- the level of MPs' pay should be related to their previous experience.	No- the level of MPs' pay should not be related to their previous experience.	Don't know.
<i>Base</i>		29.2%	68.6%	2.1%
I am a member of the public	97.3%	28.9%	66.4%	2.1%
I am an MP	0.8%	-	0.8%	-
I work for an MP	1.9%	0.4%	1.5%	0.1%

Question 7: Some MPs have additional earnings which they receive from work outside of Westminster. Do you think that MPs' outside earnings should be considered as part of the review of their pay?

Respondents	Total: 1850	No- outside earnings are not relevant in reviewing the level of MPs' pay.	Yes- IPSA should consider whether MPs have outside earnings when reviewing MPs' pay.	Don't know.
<i>Base</i>		44.1%	54.2%	1.7%
I am a member of the public	97.3%	42.0%	53.6%	1.7%
I am an MP	0.8%	0.6%	0.1%	-
I work for an MP	1.9%	1.5%	0.4%	0.1%

Question 8: MPs contribute a higher percentage of their salary into their pension fund than most public sector workers, but they also receive higher benefits than most. To what extent should MPs' pension arrangements follow the changes occurring elsewhere in the public sector?

Respondents	Total: 1850	In the same manner- MPs' pensions should be treated the same as public sector pensions.	MPs' pensions should largely be treated in the same manner as public sector pensions but IPSA should also consider developments in private sector pensions.	Not at all- MPs' pensions should not be treated the same as public sector pensions.	Don't know.
<i>Base</i>		67.6%	22.6%	8.2%	1.6%
I am a member of the public	97.3%	65.9%	21.9%	7.9%	1.6%
I am an MP	0.8%	0.5%	0.1%	0.1%	-
I work for an MP	1.9%	1.1%	0.6%	0.2%	-

Question 9: In 2015 boundary changes will be introduced which will see the 650 constituencies in the United Kingdom reduced to 600.¹³⁹ Do you think:

Respondents	Total: 1850	Those MPs who constituencies “disappear” should automatically be entitled to a resettlement payment if they chose not to run for a seat in a different constituency.	MPs whose constituencies “disappear” should have to stand in another constituency and lose the election to receive the resettlement payment.	Don't know.
		21.6%	69.9%	8.4%
<i>Base</i>				
I am a member of the public	97.3%	20.1%	69.0%	8.2%
I am an MP	0.8%	0.5%	0.1%	0.1%
I work for an MP	1.9%	1.0%	0.8%	0.1%

¹³⁹ The survey took place before the proposed reduction in seats was placed in doubt, following the abandonment of House of Lords reform.