

Summary: MPs' pay and pensions

March 2021

IPSA

MPs' pay and pensions: consultation report on periodic adjustments to MPs' salaries and consultation on response to the McCloud pensions case

1. In autumn 2020 we consulted, as we are legally required to do in the year after a general election, on the mechanism for making periodic changes to MPs' salaries.¹ We also stated our intention to consider the potential impact of the McCloud legal judgement on MPs' pension arrangements once the government had concluded its own consultation on the matter.
2. We are now launching a consultation on the approach to addressing the implications of the McCloud judgement for the MPs' Pension Scheme. The judgement found that measures taken in another scheme in relation to the transition from final salary ('FS') to 'Career Average Revalued Earnings' ('CARE') constituted unlawful discrimination. While the legal arrangements for the MPs' scheme are different, we have identified unfairness in the arrangements for those MPs who were 'partially protected' or 'unprotected' at the time of the transition. For reasons we explain in the consultation document, we do not think those that were 'fully protected' were treated unfairly.
3. We therefore think that changes are needed to the MPs' scheme to address this unfairness. In considering our approach we have taken account of the approaches taken by the government in relation to other public sector schemes and the specific circumstances of the MPs' scheme. The approach we are proposing would follow the government's approach for other schemes in giving those who were unfairly treated the choice of whether to be treated as a member of the former FS scheme or the CARE scheme for a period at the end of which the FS scheme would close to future accruals. We discuss options for when this period would end. We also propose that in order to provide clarity, impacted individuals would make their choice as soon as is practicable, rather than deferring the choice until the point of retirement and that a 'default option' be identified which will be applied to any impacted member unless they prefer to opt out. The proposed changes affect less than half of current MPs, and some former MPs.
4. We will reflect on the outcome of this consultation before making final decisions on the changes needed and in parallel use feedback from stakeholders to work with the PCPF Trustees on more detailed aspects of implementation. We will then prepare the detailed changes to the MPs' scheme and aim to consult on those around the end of 2021.
5. We will also keep under review whether any further changes to MPs' pension arrangements are needed, particularly if our approach to updating salaries evolves, in order to ensure that MPs' overall remuneration package remains fair and appropriate for them and for taxpayers. This may lead to further changes in due

¹ The principles we apply to decisions about MPs' pay are set out in Annex 1.

course. However, our priority for this year is to implement an appropriate response to the McCloud judgement.

6. For good reasons the legislation requires us to consult periodically on the approach to setting MPs' pay, on the basis that while there is never a good time to talk about MPs' pay, avoiding doing so for long periods creates the conditions which in the past were seen to have contributed to the expenses scandal. We were well aware that raising the question of pay at the time we were required to do so would appear to be out of tune with the uncertainty that people and the economy as a whole were facing as a result of the pandemic. With that uncertainty in mind, we consulted on retaining the approach we have applied since 2015, of linking to an external benchmark of changes in earnings produced by the Office for National Statistics. However, as the autumn progressed, it was clear that the economic impact of Covid-19 was even greater than originally envisaged, and HM Treasury has subsequently noted that economic output fell more last year than in any year since the Great Frost of 1709.
7. We took a decision in December 2020 that MPs salaries should remain unchanged in April 2021. That decision was informed by the many responses we received to the consultation, for which we are grateful, and the economic and pay climate which continued to evolve after our consultation closed.
8. In the consultation report we publish the formal determination which gives effect to that decision, and more information on the consultation responses we received and how they informed our decision. We also set out some reflections on the future approach to setting MPs' pay which may lead to a further consultation in due course.

Annex 1: Outcomes and guiding principles for our review of MPs’ remuneration

1. During the review which concluded in 2015, we consulted on guiding principles for how we would make decisions about MPs’ pay. We found these helpful in guiding our approach and explaining our thinking. For this review, we take a similar approach.
2. The outcomes we wish to achieve aim to capture the goals that underpin the Act of Parliament which created IPSA, and recognise explicitly that the office of MP is one which anyone not subject to a statutory disqualification is entitled to hold, if they are chosen by the electorate. Making this point explicit will help us to consider the equalities impact of our work and to reduce the possibility that there are any inadvertent barriers to diversity in the remuneration scheme we decide.
3. Taken together, these principles help us to ensure that our decisions are fair both to MPs, given the nature of the office they hold, and to the taxpayers who fund MPs’ pay. We start with a strong presumption that this principle of fairness means all MPs should be paid the same, with additional payments made only to those who hold specified, additional parliamentary roles, such as chairs of select committees, which bring extra responsibilities.

Table 1: Outcomes and guiding principles for IPSA’s review of MPs’ pay

Outcomes: what MPs’ remuneration arrangements are designed to achieve	
R1	The structure and level of MPs’ overall reward:
R1A	<ul style="list-style-type: none"> enables MPs to fully and effectively carry out Parliamentary duties
R1B	<ul style="list-style-type: none"> is fair for all MPs given the diversity of MPs who may be elected by voters
R2	The determination and its implementation provide appropriate assurance that good value is obtained from public funds
Guiding principles: criteria we apply to ensure the remuneration arrangements deliver the outcomes	
P1	MPs should be fairly remunerated for the work they do and the total cost to the taxpayer should be affordable and fair
P2	MPs’ overall remuneration should be considered as a whole package
P3	The package should have a clear rationale linked to the intended outcomes, and be cost-effective and efficient to administer
P4	The package should be sustainable in the medium term without the need for frequent, major changes
P5	As far as is practicable MPs’ remuneration and reward should reflect the experience of other working citizens