

# MPs' pensions: Responding to the McCloud judgment

A consultation

February 2022

IPSA

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## 1 Background to the consultation

1. In 2015, the Government implemented reforms to public service pension schemes, such that they changed from providing benefits on a basis related to an individual's final salary (a 'final salary' or 'FS' scheme), to benefits related to 'career average revalued earnings' (a 'CARE' scheme). As part of the reforms, a set of transitional arrangements were put in place, to allow those closest to retirement to stay in the FS section of schemes; and a further group also close to retirement to transition in later phases after the date on which other members moved across to the CARE section. The groups were defined specifically by age. The intention was to protect those closer to retirement when the CARE section was introduced from unanticipated changes to pension benefits.
2. IPSA implemented analogous changes to the MPs' pension scheme in 2015, as part of its review of MPs' overall remuneration. Our objective in making the change from FS to CARE was to ensure that MPs' pension arrangements, which had grown increasingly expensive to provide in the preceding years, were put on a more sustainable basis. The 2015 changes to the MPs' pension scheme included similar transitional arrangements for some groups of members, defined by age, as was implemented in other public service pension schemes.
3. A Court of Appeal judgment known as the 'McCloud case' subsequently found in 2018 that the transitional arrangements in some other public service schemes, but not the CARE section itself, constituted unlawful age discrimination under the Equalities Act 2010. In light of that judgment, the Government has consulted on and proposed changes<sup>1</sup> to various public sector schemes in order to move to a position where all scheme members are treated in the same way regardless of proximity to retirement; and to address the position of those who were subject to transitional provisions which the court found to be unlawful.
4. The legal structure of and arrangements for the MPs' scheme differ from those for other public service schemes about which the Government has consulted. This means that it is for IPSA to determine whether changes are needed to the MPs' scheme in light of McCloud and, if so, what those should be. In line with our principles for MPs' remuneration more broadly, we have approached this principally as a matter of fairness, both to MPs and taxpayers. We considered the tests set out in the Equality Act 2010, the Government's proposed changes to public service schemes and the extent to which those were applicable to the MPs' pension scheme. We concluded that when the Equality Act tests were applied there were some members who may have been treated unfairly relative to others during the 2015 transition to the CARE section.

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/958635/Public\\_Sector\\_Pensions\\_Consultation\\_Response.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/958635/Public_Sector_Pensions_Consultation_Response.pdf)

5. In March 2021, IPSA published a consultation<sup>2</sup> on a proposal that we should make changes in response to this unfairness, setting out some key elements of what the response should be. The proposed approach was broadly similar to the Government's approach in respect of other public service schemes, in giving those who may have been unfairly treated a choice about whether they wish to be treated as a member of the FS section or the CARE section during a specific period of time (the 'relevant period'). In some respects, IPSA's proposals differed from the Government's approach, where we considered that appropriate, taking into account the size of the MPs' scheme and characteristics of the MP role, including the level of salary and prospect of changes in pay throughout an MP's career. One key difference is that we proposed that impacted members would be asked to make a choice in the near future ('immediate choice'), rather than at the point of retirement ('deferred choice'), which is the Government's approach.
6. There was widespread support amongst respondents for the principle that changes should be made to the MPs' pension scheme in response to McCloud, alongside recognition that designing and implementing those changes effectively is a complex task which would involve cost to the taxpayer and the scheme, in terms of both extra benefits payable and administration. We therefore concluded that it was right to press ahead with preparing detailed proposals for change.
7. In light of that consultation, we confirmed that the proposed changes were likely to include:
  - a. The closure to future accruals under the FS section and transfer of remaining active members to the CARE section; and
  - b. An 'immediate' rather than a 'deferred' choice for those impacted about whether to be treated as a FS member or CARE member during the 'relevant period', but over a longer timescale than that we originally consulted on and with a timetable better aligned to the next general election.
8. In a number of areas, we concluded that further exploration was warranted, including on the 'defaults' that would apply where an individual does not make a choice; the possibility of a 'no change' option for those who currently have a mix of FS and CARE benefits during the relevant period; and the precise arrangements for those transferring who have been paying additional contributions, for example in relation to added years.
9. Since then, we have worked on designing the detail of the policy solution, which would ultimately be translated into rule changes to the scheme. This second consultation sets out the detail of how we envisage the McCloud response will be implemented for the MPs' pension scheme.
10. We have also turned our minds to the implementation of these changes, including whether we can deliver a fair, workable and good value response. We have engaged with the PCPF Trustees, who hold responsibility for administering the pension fund, and have agreed an

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[https://assets.ctfassets.net/nc7h1cs4q6ic/4qkZjj0J815DJ05VORTVJh/104563c4fee2e2118d86c66ac366e8ed/McCloud\\_consultation\\_FINAL\\_\\_002\\_.pdf](https://assets.ctfassets.net/nc7h1cs4q6ic/4qkZjj0J815DJ05VORTVJh/104563c4fee2e2118d86c66ac366e8ed/McCloud_consultation_FINAL__002_.pdf)

approach to collaboration which recognises our respective roles and responsibilities, but also our joint objective of ensuring success in this work.

## How to respond

11. Please use our online survey to submit your response. You can find it here: <https://www.smartsurvey.co.uk/s/MPpensionsMcCloud/>. You can also email [consultation@theipsa.org.uk](mailto:consultation@theipsa.org.uk) if you prefer. **Please do not send us responses by post.**
12. We will summarise the responses we receive when we publish our decisions. In doing so, we may refer to individual respondents and the content of their responses. We may also publish a list of who responded. If you would like your response to be treated as confidential, please say so clearly in your response. We will not quote from confidential responses or attribute the views in them to any particular respondent. Whether your response is confidential or not, we will not publish your email address or any other contact details, in line with our compliance with data protection law and the General Data Protection Regulation (GDPR). For more information about what we do with personal data, please see our [privacy notice](#).
13. **Please send us your response by Friday 18<sup>th</sup> March 2022.**

## 2 The proposed policy solution

14. In the March 2021 consultation, we proposed the outline of a policy solution in response to McCloud. There was broad support amongst consultation respondents for the principle of that response, and we continue to believe that it is appropriate to make changes to address the potential unfairness that arose as a result of 2015 transitional arrangements. We expect that the key elements of the solution will be in line with those we consulted on, as follows:
- a. In line with the government's approach to other public sector schemes, relevant scheme members would be given the choice as to whether to stay in the CARE section or revert to the FS section for a defined period.
  - b. Members who chose to return to the FS section would do so at the same accrual rate they paid previously.<sup>3</sup> For most people impacted, this would be the 1/40<sup>th</sup> accrual rate. These members would need to pay additional contributions, because the associated contribution rate is higher than the rate they have been paying in the CARE section. Meanwhile those with 1/50<sup>th</sup> or 1/60<sup>th</sup> accruals would be due a contribution refund.
  - c. We would indicate a default option which would apply to any impacted member who did not choose another available option within the specified period.
  - d. In line with the government's approach, we would define an end date for accruals to the FS section. From this date all active members still in the FS section would transfer to the CARE section for future accruals.
  - e. In line with the Ministry of Justice, although not the wider government approach for other schemes, we would take an 'immediate choice' approach under which impacted members would decide which option to take within the next couple of years; rather than a 'deferred choice' approach under which members wait until they are at the point of taking their pension benefits to make a retrospective choice. This would provide earlier certainty for members, reduce the potential for difficult cases to arise in the meantime, reduce the complexity of determining the tax implications over a long period for both members and the scheme, and avoid the cost and complexity of a protracted implementation period for the scheme.
  - f. The changes would apply to pension benefits in relation to the MP salary as well as 'Office Holder' salary<sup>4</sup>.
15. While the March 2021 consultation confirmed our intention to proceed with the key elements of these changes, the responses we received (from the PCPF Trustees in particular), along with further reflection and exploration with our advisors since then have also informed some refinements and amendments to the proposed approach. The sections below set out the detail of the policy solution, including where we have changed our view since the first consultation.

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<sup>3</sup> The FS section has three accrual rates with different corresponding contribution rates. Once chosen, the accrual rate cannot be changed. Most people were previously contributing at the 1/40<sup>th</sup> accrual rate.

<sup>4</sup> Some MPs receive an additional salary for roles with added responsibility, such as Select Committee Chairs.

## When should the relevant period end?

16. The proposed policy solution aims to address the potential unfairness which took place during the so-called ‘relevant period’ – meaning the period of time between the introduction of the CARE section on 8 May 2015 and the closure of the FS section to all future accruals. In the first consultation, we proposed that the relevant period should end by April 2023. This is a year later than for the analogous changes being made by the government in respect of other public service schemes. Although this represents a potentially higher cost, we believed that in practical terms this would be the most realistic option.
17. Consultation respondents highlighted the relevance of the date of the next general election to the choices members would make. In particular, several respondents noted that a specificity of the MPs’ Scheme as distinct from other public service schemes is that MPs will usually make plans for their retirement relative to the end of a parliamentary term. The PCPF Trustees also favoured a date aligned to the next general election in their response and noted that an earlier date could mean that some members have a very short period of active service in the CARE section before leaving Parliament, which would increase administrative complexity.
18. We have considered this question again in light of the feedback from the previous consultation and a greater understanding of the interaction between this date and the timing of the next election. We recognise the PCPF Trustees’ concerns about potential administrative complexity; but on balance we continue to believe that closing the FS section before the likely timing of the next general election (although noting that that date is as yet unknown) is right in order to limit costs to the taxpayer. We have therefore confirmed our proposal that the end of the relevant period should be on 31 March 2023.
19. At the same time, we have looked at options for ‘de-coupling’ the timing of the end of the relevant period from when impacted members will be asked to make a choice. This would allow a process which recognises the significance of the general election to the choices that members may make. We discuss this further below.

**Question 1: Do you have any further comments on the proposal to close the FS section as of 31 March 2023?**

## When should members be asked to make a choice?

20. As above, we continue to believe that an ‘immediate choice’ approach is appropriate for the MPs’ scheme, meaning that impacted members would be asked to make a choice about whether to change their benefits within the next couple of years, rather than deferring to the point of taking their pension benefits. There is, however, still a question about when the choice exercise should take place and how this interacts with the end of the relevant period and other events such as the next general election.
21. We are also conscious that the timing of the choice exercise needs to allow sufficient time for members to have and digest all of the relevant information provided to them on the impact of the available choices and to seek advice if they wish to do so. There is a balance to

strike between taking the time to ensure this high quality of support and not prolonging this complex period of change unnecessarily.

22. The PCPF Trustees have suggested that many active members may find it easier to make a choice after the next general election when there will be greater certainty over their likely financial circumstances for the subsequent period. Having considered this question again, we are persuaded by this suggestion, on the basis that choices are made within a relatively short period after the election. We understand that by extending the process slightly to the next election would enable us to stick to an ‘immediate choice’ approach in general, while enabling members to make a choice at a time more suitable for them.
23. The timing of the next election is unknown; we note that the Government has announced its intention to repeal the Fixed Term Parliaments Act. It is therefore possible that the next election actually takes place shortly after the end of the relevant period (or even sooner). If that were to happen, we do not think it would be appropriate to wait until the election after that one to require members to make their choices, and so are proposing to set a ‘backstop’ date with discretion for the Trustees to set deadlines for choices to be made within that. The backstop date could be, for example, the end of 2024.
24. **Trustee discretion:** We indicated in the previous consultation that we were keen to work with the PCPF Trustees to understand where there may be ‘edge cases’ that require slightly different handling or flexibility around timing. For example, we understand through further discussion that there is a possibility of delay in receiving the relevant information for members with ‘retained benefits’, which would impact on their FS benefits. Given the relatively small size of the scheme and number of impacted members, we believe it would be appropriate to provide the Trustees with some flexibility to deal with these cases, for example by extending deadlines, in order to ensure that all members have access to the information they need and a reasonable amount of time to consider it before making a choice.

**Question 2: Do you agree that the choice exercise should take place after the end of the relevant period (31 March 2023), with a deadline for choices to be determined by the Trustees but with a ‘backstop’ date set by IPSA? Do you have views on when that backstop date should be?**

**Question 3: Do you agree that the rules should allow appropriate discretion for the Trustees to respond flexibly to ‘edge cases’ which require slightly longer timelines or different handling?**

## **Impacted members: Who should be given a choice?**

25. We have proposed that the scheme members who fall within scope of the proposed changes are those who were active members on both 1 April 2013 and immediately before the 2015 election, or those who became an MP and active member of the scheme between 1 April 2013 and the 2015 election; and have been re-elected at least once since 7 May 2015, in either the 2015, 2017 or 2019 election. Of those impacted members, some were ‘fully protected’ and

could remain in the FS section, while others had partial (time-limited) protection or no protection and transferred immediately into the CARE section.

26. In last year's consultation, we proposed that only partially protected members (PPMs) and unprotected members (UPMs) should be asked to make a choice of whether to be treated as members of the FS section or CARE section during the relevant period. This was on the basis that it was difficult to identify a comparator group against which fully protected members (FPMs) were treated less favourably as a result of the 2015 reforms, because they were allowed to stay in the FS section.
27. IPSA previously considered the question of whether to allow FPMs to opt to move to the CARE section during an earlier review in 2018. At the time we were clear in our view that the maximum pension accrual under the FS section represents an appropriate limit to MPs' pension entitlements and a fair balance between the interests of MPs and taxpayers. MPs who had reached those limits in the FS section should therefore not be able to further increase their entitlement by joining the CARE section.
28. In their response to the March 2021 consultation, the PCPF Trustees repeated their call for FPMs to have the option to transfer to the CARE section for the relevant period (i.e. to be given the same choices as other impacted members). They noted that this is likely to be relevant to members who have reached accrual limits in the FS section. They also argued that if such members are eligible to accrue benefits in the CARE section after the end of the relevant period anyway because of the proposed changes, then our approach is difficult to reconcile with our intention to limit the maximum achievable pension benefit in the interests of affordability.
29. We have reflected on this issue further and have concluded that it is prudent to consider the question again. Whether negative impacts arise for an individual member depends not just on their membership of the MPs' pension scheme alone, but on other aspects of their personal financial situation including any other pension benefits they are accruing. Although in most cases, membership in the FS section will provide more generous pension benefits, it is possible that some FPMs who do not have the opportunity to opt for CARE may face a detriment such as a larger tax charge as a result.
30. In many cases, the FS section will be the more beneficial choice for members. But we are conscious of creating unintended consequences through the proposed changes, including the possibility that some FPMs may actually be disadvantaged compared with PPMs and UPMs as a result. To note, the intention of the policy solution is not to maximise the benefits accrued by members, but rather to ensure that all impacted members are treated fairly during the relevant period. From a fairness perspective therefore, we are considering a change to our original proposal, to allow FPMs to also have a choice between the FS and CARE sections during the relevant period.

**Question 4: Do you agree that FPMs should be offered a choice between the FS section and CARE section during the relevant period, in the same way as PPMs and UPMs?**



## What choices should be available to impacted members?

31. Our initial proposal assumed that members would be offered a choice between the FS and CARE sections but would not be able to choose some mixture of FS and CARE benefits during the relevant period. This would ensure fairness across members while limiting the potential complexity of implementation and is in line with the government's approach to other schemes.
32. However since the first consultation, we have reconsidered this issue and in particular the provision in the Constitutional Reform and Governance Act (CRAG) 2010, which prevents any changes which impact on a scheme member's 'accrued rights', unless it is with the agreement of both the PCPF and the individual member<sup>5</sup>. We also have a clearer understanding now about the ways in which a member could be affected by changes to their pension benefits, including by tax charges which may partly depend on other pension benefits they are accruing in other schemes.
33. In particular, PPMs are those who transitioned from FS to CARE at different points during the relevant period and therefore currently have a mixture of FS and CARE benefits. It is possible that for some members, that specific mixture is more beneficial than only CARE or only FS benefits for the period – for example because they would incur a higher tax charge. While UPMs, and potentially also FPMs, would have a 'no change' option – i.e. they would be able to keep their benefits as they are – PPMs would, according to the original proposal, *have to* make a change to their benefits, even if that results in a detriment.
34. We are now proposing to offer PPMs the ability to choose 'no change', as a third option along with moving into FS or CARE for the whole relevant period. We are clear that this is not about maximising the benefits available to PPMs but ensuring that members are not forced to make a choice which impacts on their accrued rights.

**Question 5: Do you agree that PPMs should have the ability to choose 'no change', i.e. to retain their mix of FS and CARE benefits for the relevant period?**

## What should the 'defaults' be?

35. As proposed in the March 2021 consultation, we believe that it is sensible to set a 'default' option which would apply in cases where an impacted member did not make a choice on how their benefits should be treated for the relevant period. We believe it will be very important to ensure that all impacted members have clear and detailed information on the choices available to them in good time, so they feel able to make a choice. However, we also know that it can be difficult in general to get people to engage on matters relating to their pensions. In cases where no choice is made, being able to apply defaults will simplify the implementation process for the PCPF and scheme administrators.
36. We previously suggested the following defaults would apply:

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<sup>5</sup> Constitutional Reform and Governance Act 2010, Schedule 6, paragraph 19

- a. PPMs and UPMs who were previously on the 1/50<sup>th</sup> and 1/60<sup>th</sup> accrual rates would revert to the FS section for the relevant period at their previous accrual rate; and
- b. Those who were previously on the 1/40<sup>th</sup> accrual rate would stay in the CARE section.

37. This proposal was based on our understanding of the possible benefits or detriments faced by impacted members in different groups. As with the issue above, we have reconsidered this issue in light of the protection of accrued rights as set out in the CRAG, as well as a better understanding of the potential impacts on members.

38. We are now proposing that the default should simply be to leave members' benefits unchanged in relation to the relevant period. In other words: FPMs would stay in the FS section; UPMs would stay in the CARE section; and PPMs would retain their mix of FS and CARE benefits. This would ensure there are no unintended consequences as a result of defaults applying. At the same time, we believe it will be important to make sure that all impacted members have enough clear, high-quality information and ample opportunity to make a choice to change their benefits if they wish. We will work closely with the PCPF Trustees to do so.

**Question 6: Do you agree that the default in cases where a member does not make a choice should be to leave their benefits unchanged?**

## Closure of the FS section – detailed proposals

39. As above, a key element of the policy solution in response to unfairness in the scheme is the closure of the FS section to future accruals, so that from the end of the relevant period (which we are proposing to be 31 March 2023) all members are treated the same. Our intention is to proceed with changes to the scheme to give effect to this. This would apply to future accrual of benefits in relation to 'Office holder' salaries as well.

40. Closure of the FS section will affect a relatively small number of FPMs who are still active members. These individuals would be transitioned to CARE (unless they opt out of the scheme) on the same basis as those members who transitioned earlier, in 2015 or since then. They would retain the 'final salary link', meaning that any FS benefits they have built up previously would be based on their salary at the point of retirement, not when they left the FS section. For those who had reached maximum accrual under the FS section, transferring to CARE would also allow them to continue to accrue further benefits. They would also be able to take their FS benefits (which are subject to a lower normal retirement age) separately from their CARE benefits if they chose to.

41. **Added Years:** The current scheme rules allow for any arrangements to purchase additional benefits in the form of 'Added Years' which were put in place immediately before the CARE commencement date of 8 May 2015 to continue even after an FS member has transitioned to CARE. We are proposing that any FPMs and PPMs should be able to continue any existing arrangements, but only until the end of the relevant period. UPMs would additionally be given the opportunity to continue arrangements that were in place immediately prior to 8 May 2015, also until the end of the relevant period. We believe this change will put all

impacted members in the same position in relation to pre-existing Added Years arrangements.

**Question 7: Do you have any comments on the proposals relating to closure of the FS section at the end of the relevant period?**

## **Impacted member benefits for the relevant period – detailed proposals**

42. The treatment of impacted members' benefits, including the choices to be offered, during the relevant period is discussed above. Those within scope include individuals who were active members on both 1 April 2013 and immediately before the 2015 election or who became an MP and active member of the Scheme between 1 April 2013 and the 2015 election; and have been re-elected at least once since 7 May 2015, in either the 2015, 2017 or 2019 election. Individuals who otherwise meet this definition but transferred out before the new rules come into effect, would be out of scope.
43. Where an impacted individual opts for FS benefits during the relevant period, this would be at the last accrual rate at which they participated previously (1/40<sup>th</sup>, 1/50<sup>th</sup> or 1/60<sup>th</sup>).
44. As set out above, defaults would apply to any individual who had not made a choice by the dates specified by the Trustees and/or the backstop date. We are also proposing that defaults should be triggered where an individual has not yet communicated a choice and requests a transfer out of the scheme; or starts to take FS and/or CARE benefits in relation to their MP or office holder pension. We would suggest that in most cases, requiring the member to communicate a choice as part of these processes will reduce the actual need for defaults to be applied.
45. We are also considering the treatment of cases where an impacted member has died since the start of the relevant period, or after the new rules come into effect but before they are able to communicate a choice. We suggest it would be appropriate for discretion to be provided to the Trustees to address these cases.
46. Any choice made to change pension benefits would require either additional contributions to be paid by the member, or for the scheme to pay a refund of contributions to the member. For some members who choose to move into the FS section, the additional contributions due could be quite high and it may be unreasonable to expect the member to pay them immediately. We are proposing to provide discretion to the Trustees to:
  - determine whether reasonable interest is payable;
  - determine the mechanism and timing for collecting additional contributions due (e.g. agreeing a payment schedule) and for paying refunds;
  - reduce the amount payable in relation to periods where members can no longer claim tax relief on contributions; or in respect of refunds, where HMRC can no longer reclaim tax on the amount; and
  - offset any amounts due as refunds to members against payment of future contributions or payment for extra pension options.

47. Any existing transfers in during the relevant period would be treated as transfers in relation to the section in which the member would be accruing benefits once their choice was implemented, as at the date they applied for the transfer, or the applicable default option. Any impacted individual who makes a transfer out once the new rules come into effect, but has not yet communicated a choice, would do so on the basis of the applicable 'default' option.
48. **Pension sharing orders:** We are not proposing that a change in benefits for an individual member who is a Pension Debit Member should automatically lead to an adjustment of the amount of pension credit paid. Instead, given the small number of members this is likely to impact, we believe this is an area where appropriate discretion can be left to the Trustees to make adjustments in such cases and to respond (for example) to any direction from a court to do so.
49. **Extra pension:** Members can purchase extra pension benefits in a number of different ways including Added Years (under the FS section), a reduction in Effective Pension Age (EPA), Early Retirement Reduction Waiver (ERRW) and Added Pension (under the CARE section), and via the Additional Voluntary Contribution (AVC) scheme (available to both FS and CARE members). In general, we are not proposing to make changes to these provisions, and individuals would be eligible for either FS or CARE extra pension benefits (or for PPMs, the existing mix of those under the 'no change' option), based on their choice.
50. We are proposing to give the Trustees discretion to either refund a member who has paid for any of these extra pension options but are no longer entitled to them (i.e. because they have chosen to move to a different scheme for the relevant period); or to use the amount to fund any additional contributions owed as a result of their choice, or to purchase any other benefits available to them under the relevant scheme.

**Question 8: Do you have any comments on the proposals relating to impacted member benefits for the relevant period?**

## **Cost cap**

51. The MPs' pension scheme includes a 'cost cap' mechanism, similar to what is in place in other public service pension schemes, which aims at controlling the cost of pension benefits to the public purse by ensuring they remain with a certain cost 'corridor' (measured as a percentage of pensionable salary). In the March 2021 consultation, we posed a question about how we should approach the 2017 and 2020 cost cap valuations, which were paused and are still outstanding. We suggested that it would be appropriate to make an allowance for the estimated cost of McCloud-related changes to the scheme in the 2017 valuation, in order to provide transparency of the costs and scheme affordability.
52. The Trustees in their response argued that McCloud costs were not relevant to the (simplified) form of cost cap which exists in the MPs' scheme and should be excluded. We have considered this further and agree with the Trustees that allowing for McCloud costs does not fit naturally with the cost cap mechanism as it currently exists.

53. In recent months, the government has announced how it will approach the cost cap for other schemes. The cost cap mechanism for those schemes is designed differently from the MPs' scheme so do require the McCloud costs to be included. But the government has announced that it would not enforce any reduction to member benefits as a result of the cost cap 'ceiling' being breached due to the McCloud changes.<sup>6</sup> It has also now published the response to a consultation on a number of reforms to the cost cap, including widening the 'corridor' between the ceiling and floor (from +/-2% to +/-3%), meaning that changes as a result of cost cap valuations are less likely to occur in future<sup>7</sup>.
54. Taking all this into account, we have decided to proceed with the 2017 and 2020 cost cap valuations according to the current scheme rules. This will in effect produce a similar outcome as the government's approach with other schemes, whereby the impact of McCloud is being put to one side. It will also avoid the need to potentially increase member contributions retrospectively, which would impact on all scheme members including those who are not within scope of the McCloud changes.
55. We also believe it is prudent to consider whether the cost cap mechanism should be amended so that the 'corridor' between ceiling and floor is widened to +/-3%, in line with the government's approach. This will ensure greater stability in response to cost changes in future, while also ensuring that the cost to the taxpayer is appropriately limited.

**Question 9: Do you have views on whether the cost cap ceiling and floor should be changed to +/- 3% (increased from +/- 2%)?**

## Implementation

56. We are realistic about the complexity and challenges of implementing the proposed changes. Although the number of impacted members in the MPs' scheme is relatively small compared with other public service schemes undergoing similar changes, there is significantly less overall resource within IPSA and the PCPF to support this work. We are establishing a joint implementation project with the PCPF Trustees to ensure that we identify practical issues, mitigate risks and commit the necessary resource. This collaborative approach will be the key to being able to implement the changes successfully, cost-effectively and with appropriate support for impacted members.
57. This is a complex area and for some impacted members, the proposals and what they mean for their pension may on the surface seem inscrutable. We recognise the huge importance of ensuring that clear information is made available to impacted members as soon as possible to support their decisions – including on the comparative value of benefits in each scheme, any additional contributions (or refunds) that would be due and any tax

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<sup>6</sup> <https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes/outcome/update-on-the-2016-and-2020-valuations>

<sup>7</sup> <https://www.gov.uk/government/consultations/public-service-pensions-cost-control-mechanism-consultation>

implications. We will work closely with the Trustees to find the best ways of providing this high-quality information to members.

58. We do not believe it would be appropriate for IPSA to fund the cost of regulated financial advice, although some members may wish to seek their own advice based on the information provided to them about their choices. We are open, however, to exploring with the PCPF Trustees whether it would be possible to support access to financial advisors with relevant knowledge of this scheme.
59. A particularly difficult aspect of implementation and communication with members is the impact that changes in individual members' benefits may have on their tax liabilities. This could, for example, come about because an increase in pension contributions breaches annual allowance limits on the amount of tax-relieved pension savings that can be made within one tax year. The government has recently introduced provisions in the Finance Bill which would allow regulations to be made in order to simplify the tax impacts on members of other public service schemes who are affected by McCloud. This could include for example:
- additional annual allowance to be available so that an individual will not pay more annual allowance charge than they would have done if they had accrued their chosen benefits in the relevant tax years;
  - where a scheme has paid lifetime allowance or annual allowance charges on behalf of the individual, but that accrual is now under a different scheme, for the payment to be deemed to have been paid by the latter scheme; and
  - ensuring that payments of pensions and lump sums that would have been authorised payments had they been made at the relevant time, are treated as meeting the conditions to be authorised.<sup>8</sup>
60. We are engaging with HM Treasury officials on the possibility that future regulations could make similar provisions in respect of the changes we have proposed to the MPs' scheme. This would be helpful in 'smoothing' the potential unintended impacts on members' tax positions.

## Equality impact assessment

61. The proposals included in this consultation are made with the objective of removing age-related unfairness which may have been brought about by the transitional arrangements established as part of the 2015 reforms to the scheme. A key part of this would be establishing a date - the end of the relevant period - after which all scheme members are treated the same. We therefore believe that, if implemented, these changes would have a positive impact on equality in relation to age.

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<sup>8</sup> <https://www.gov.uk/government/publications/taxation-of-public-service-pension-reform-remedy/taxation-of-public-service-pension-reform-remedy>

62. The demographics of MPs as a whole also suggest that providing younger impacted members (i.e. PPMs and UPMs) the choice to accrue benefits in the FS section for the relevant period may also result in a positive impact on equality in relation to sex and race.

**Question 10: Do you have any views on these or any other possible equality impacts resulting from the proposed changes?**