



## Pensions of Ministers and senior office holders

Standard Note: SN 04586  
Last updated: 7 March 2014  
Author: Djuna Thurley  
Section: Business and Transport Section

---

The Parliamentary Contributory Pension Fund is a statutory, defined benefit pension scheme. It operates on a funded basis, meaning that contributions from employees and employers are paid into a fund, which is invested, and from which pension benefits are paid. The Fund is made up of an MPs' Pension Scheme (which provides benefits for MPs and certain office holders, such as paid chairs of Select Committees) and a Ministers' Pension Scheme (which provides benefits for Ministers). The Minister for the Civil Service (MCS) is responsible for oversight of the Ministers' scheme. IPSA is responsible for the MPs' scheme.

Ministers who are MPs accrue pensions from both schemes. Ministers who are in the Lords have the option of participating in the PCPF in respect of their ministerial salary, but do not receive a salary as a Member of the House of Lords. At present, the main difference between the schemes is that the MPs' scheme provides pension benefits based on final salary, whereas in the Ministers' scheme they are based on career average salary. However, IPSA has announced its intention to introduce a career average scheme for MPs from 2015. The MCS has also announced his intention to reform the Ministers' scheme in the longer term.

Separate arrangements for the pensions for the three great offices of state - the Prime Minister, Speaker of the House of Commons and Lord Chancellor – were abolished for future office holders by the [Public Service Pensions Act 2013](#). The previous arrangements gave entitlement to a pension of half the final office-holder's salary on leaving office, regardless of length of service. These payments were met through the [Consolidated Fund](#) (the Government's general bank account). Under the 2013 Act, the great offices of state will instead be covered by the Ministers' Pension Scheme. The pensions of existing office holders will continue to be met from the Consolidated Fund, even where they have signed a waiver and will receive benefits comparable to those provided under the Ministers' Scheme.

This note looks at pensions for ministers and senior office holders. See also, SN 6283 [MPs' pensions – 2012 onwards](#) and SN 5768 [Public service pension reform – 2010 onwards](#).

This information is provided to Members of Parliament in support of their parliamentary duties and is not intended to address the specific circumstances of any particular individual. It should not be relied upon as being up to date; the law or policies may have changed since it was last updated; and it should not be relied upon as legal or professional advice or as a substitute for it. A suitably qualified professional should be consulted if specific advice or information is required.

This information is provided subject to [our general terms and conditions](#) which are available online or may be provided on request in hard copy. Authors are available to discuss the content of this briefing with Members and their staff, but not with the general public.

## Contents

<b>1</b>	<b>Ministers' Pension Scheme</b>	<b>3</b>
1.1	Background	3
1.2	Main features of the Ministerial Scheme	4
	Qualifying Offices	4
	Member contributions	5
	Pension increases	5
	Normal retirement age	6
	Ill-health benefits	6
	Survivors' benefits	7
	Pension benefits for Ministers who are also MPs	7
1.3	Transfer of responsibility	8
1.4	Proposals for reform	9
	Contribution increases	11
	Longer term reform	13
<b>2</b>	<b>Pensions for the great offices of state</b>	<b>13</b>
2.1	Background	13
	The Prime Minister and the Speaker	13
	The Lord Chancellor	16
2.2	Reforms	19
	Senior Salaries Review Body report - 2008	19
	Public Service Pensions Act 2013	21
<b>3</b>	<b>Pension of the Lord Speaker</b>	<b>22</b>

# 1 Ministers' Pension Scheme

## 1.1 Background

The Parliamentary Contributory Pension Fund (the Fund) - is a statutory, defined benefit pension scheme. It is contracted-out of the second tier of the State Pension. It operates on a funded basis – which means that employer and employee contributions are paid into a fund, which is invested and from which pension benefits are paid. The Fund is made up of the MPs' Pension Scheme (which provides benefits for MPs and certain office holders), and the Ministers' Pension Scheme (which provides benefits for paid Government Ministers and certain office holders).

Prior to 24 October 2011 the Fund was set up under the *Parliamentary and Other Pensions Act 1987*. The main governing regulations were the *Parliamentary Pensions (Consolidation and Amendment) Regulations 1993* (the 1993 Regulations). Other legislation relating to the Fund included the *Parliamentary and Other Pensions Act 1972*, which restructured the Fund and established the pension scheme for the holders of certain Ministerial and other offices, and the *Pension (Increase) Act 1971*, under which pension increases were granted.

The [Constitutional Reform and Governance Act 2010](#) (the 2010 Act), conferred powers on the Independent Parliamentary Standards Authority (IPSA) to ensure that decisions on MPs' salaries and pensions were taken independently of the House of Commons. Powers to take certain decisions on Ministerial pensions within the Fund were conferred on the Minister for the Civil Service (MCS). With effect from 24 October 2011, following the enactment of Schedule 6 of the 2010 Act, the provisions of the 1993 Regulations became:

- an MCS scheme under paragraph 16, in relation to the provisions which essentially govern the benefits payable under the Fund for certain paid Ministers
- an IPSA scheme under paragraph 8, in relation to the provisions which essentially govern the administration and management of the Fund;
- an IPSA scheme under paragraph 12, in relation to the provisions which essentially govern the benefits payable under the Fund for MPs, paid Committee Chairmen, and other paid office holders in Parliament.<sup>1</sup>

Ministers who are MPs accrue pension benefits from both schemes. Ministers who are in the Lords have the option of participating in the PCPF in respect of their ministerial salary, but do not receive a salary as a Member of the House of Lords. The rules for MPs' and Ministerial pensions are identical in many respects.<sup>2</sup> The main difference is that whereas MPs' pensions are calculated on the basis of final salary, those of Ministers are effectively calculated on re-valued career average earnings. This takes account of the fact that Ministers may be in office for one or several short periods of time, and that they may revert to being backbenchers for several years before they retire.

The MPs' Pension Scheme is discussed in more detail in Library Standard Note SN 6283 – [MPs' Pension Scheme – 2012 onwards](#) and SN 01844 [MPs' Pension Scheme - background](#).

---

<sup>1</sup> Collectively, these are the fund rules

<sup>2</sup> There is a summary of the main provisions of the PCPF, highlighting some of the differences between the provisions in the MP's and Supplementary Sections in, Volume II of the Review Body on Senior Salaries' [Review of Parliamentary Pay, Pensions and Allowances 2007](#).

## 1.2 Main features of the Ministerial Scheme

Detailed information about the Ministerial Scheme is set out in information leaflets for scheme members produced by the House of Commons Department of Finance. The following is an overview of some of the main provisions.

### **Qualifying Offices**

The Offices which qualify for membership of the Ministerial Scheme include:

- Chancellor of the Exchequer
- Secretary of State
- Lord President of the Council
- Lord Privy Seal (Leader of the House of Lords)
- Chancellor of the Duchy of Lancaster
- Paymaster General
- Chief Secretary to the Treasury
- Parliamentary Secretary to the Treasury
- Parliamentary Secretary other than to the Treasury
- Minister of State
- Any other Minister in charge of a public department of the Government
- Leader of the House of Commons
- Financial Secretary to the Treasury
- Attorney General
- Solicitor General
- Advocate General for Scotland
- Speaker of the House of Lords
- Captain of the Honourable Corps of Gentleman-at-Arms
- Captain of the Queen's Bodyguard of the Yeoman of the Guard
- Treasurer of Her Majesty's Household
- Lord in Waiting
- Comptroller of Her Majesty's Household
- Vice-Chamberlain of Her Majesty's Household
- Junior Lord of the Treasury
- Chief Whip, House of Commons
- Assistant Whip, House of Commons
- Chief Whip, House of Lords
- Leader of the Opposition in the House of Commons
- Chief Opposition Whip of the House of Commons
- Assistant Opposition Whip of the House of Commons
- Leader of the Opposition in the House of Lords
- Chief Opposition Whip of the House of Lords<sup>3</sup>

Some office holders are now the responsibility of IPSA – namely, the Chairman and Deputy Chairman of Ways and Means, paid Select Committee Chairmen and Members of the Panel of Chairs).<sup>4</sup>

---

<sup>3</sup> *Parliamentary Pensions (Consolidation and Amendment) Regulations (SI 1993/3253)*, as amended, C3; House of Commons Department of Resources, *'Parliamentary Contributory Pension Fund (PCPF) – Booklet for Office Holders'* (April 2009)

All Ministers automatically become members from the day of their appointment as a Minister, unless opt out within the first three months. Under existing legislation, the Prime Minister, the Speaker and the Lord Chancellor are not eligible for the Ministerial Section. Their pensions are “ex-gratia awards” paid from the Consolidated Fund.<sup>5</sup> However, this is set to change – see section 2.2 below.

**Member contributions**

PCPF members have the option of an accrual rate (pension build-up rate) of 1/40<sup>th</sup>, 1/50<sup>th</sup> or 1/60<sup>th</sup> of salary for each year of reckonable service. The majority (over 95%) accrue benefits at the highest rate.<sup>6</sup> A member’s contribution rate varies with their accrual rate.

Ministers in the House of Commons contribute at different rates on their salary as an MP and as Minister. Contribution rates in the MPs’ Pension Scheme increased in April 2012.<sup>7</sup> Those in the Ministerial scheme increased in 2012 and 2013 and are expected to increase again in 2014 (see section 1.4 below, for more detail). The table below shows contribution rates for Ministers in 2013/14:

<b>Ministers' contribution rates in 2013/14</b>				
	<b>Contribution rate increase in April 2013</b>	<b>Accrual rate</b>		
		<b>1/40th</b>	<b>1/50th</b>	<b>1/60th</b>
<b>MPs Pension Scheme</b>	0.0%	13.75%	9.75%	7.75%
<b>Ministerial Pension Scheme</b>				
<i>Group A - Secretaries of State etc</i>	2.4%	16.7%	12.7%	10.7%
<i>Group B - Ministers of State etc</i>	1.6%	15.1%	11.1%	9.1%
<i>Group C - Parliamentary Under Secretaries of State etc</i>	1.0%	13.9%	9.9%	7.9%

**Pension increases**

The legislation providing for annual increases of pensions from the PCPF is the same as that applying to other public service pension schemes. The *Pensions Increase Act 1971* and sections 59 and 59A of the *Social Security Pensions Act 1975* provide that “official pensions”

---

<sup>4</sup> GAD, [Parliamentary Contributory Pension Fund Valuation as at 1 April 2011, HC 1097](#), 27 March 2012; IPSA, [MPs’ Pensions Report on the Consultation, March 2012](#), p11

<sup>5</sup> The Consolidated Fund is the Government’s general bank account at the Bank of England. Payments from this account must be authorised in advance by the House of Commons. ([Parliament website – glossary](#)).

<sup>6</sup> IPSA, [Reviewing MPs’ Pay & Pensions: A Consultation](#), October 2012, para 174

<sup>7</sup> For more detail, see SN 6283 [MPs’ pensions – 2012 onwards](#)

are to be increased annually by the same percentage as the additional State Pension.<sup>8</sup> The Secretary of State is required to uprate the additional State Pension (State Earnings Related Pension Scheme/State Second Pension) each tax year in line with the increase in prices over “review period.” The legislation does not specify what measure of prices should be used – just that it should be the “general level of prices obtaining in Great Britain estimated in such manner as the Secretary of State thinks fit.”<sup>9</sup> From the time the power was introduced until 2011, the benchmark for prices was the Retail Prices Index (RPI).<sup>10</sup> However, the Conservative-Liberal Democrat Coalition Government announced in June 2010 that the Consumer Prices Index (CPI) would be used from April 2011.<sup>11</sup> Accordingly, pensions from the PCPF, like other public service pensions, have been increased in line with the CPI from April 2011 onwards.

### **Normal retirement age**

Members of the scheme who are MPs can only draw their pension if they have ceased to be a Minister and ceased to be an MP, and are not standing again for election as an MP.<sup>12</sup> The scheme’s normal retirement age (i.e. the earliest age from which an unreduced pension can generally be drawn) is 65. However, members may retire before this, provided they are of at least minimum retirement age (55 from 6 April 2010). In this case, the pension will normally be actuarially reduced to reflect the fact that it is likely to be paid for a longer period.<sup>13</sup>

### **Ill-health benefits**

In order to qualify for an ill-health pension, the Minister must leave their post before the age of 65. Changes were made to ill-health pension provision in 2009. There are now two tiers, depending on the extent of incapacity:

Where an applicant satisfies the Trustees that he is incapable of any work, he will be entitled to an upper tier ill-health pension, based on service that he would have completed if he had continued working to age 65. Where an applicant satisfies the Trustees that he is unable to perform his duties as an MP because of ill-health, but does not satisfy them that he is incapable of any work, he will be entitled to a lower tier ill-health pension, based on actual, rather than enhanced, service.<sup>14</sup>

Service as an office holder only gives rise to entitlement to a lower tier ill-health pension, based on actual service. There is now provision for the Trustees to review an ill-health pension payable to a person aged under 65 and terminate or reduce it where they consider that the pensioner no longer satisfies the conditions for payment of that pension (for example because they have recovered).<sup>15</sup> Ill-health pensions are not reduced for early payment and the minimum retirement age (55 from April 2010) does not apply.<sup>16</sup>

---

<sup>8</sup> The PCPF is included in the list of official pensions in Schedule 2 of the 1971 Act (paragraph 3A). HM Treasury, [A note on the operation of pensions increase legislation for public service pension schemes](#), 24 May 2001

<sup>9</sup> *Social Security Administration Act 1992*, section 150

<sup>10</sup> HM Treasury, [A note on the operation of pensions increase legislation for public service pension schemes](#), 24 May 2001, Annex D

<sup>11</sup> HM Treasury, *Budget 2010*, June 2010, para 1.106; This is discussed in more detail in Library Standard Notes SN 05830 [The CPI – uprating benefits and pensions](#) and SN 05434, [Public Service Pension Increases](#)

<sup>12</sup> The Parliamentary Contributory Pension Fund: Members’ E-Booklet – Ministerial Section, June 2011, p12

<sup>13</sup> *Ibid*, page 13

<sup>14</sup> *Parliamentary Pensions (Amendment) Regulations 2009* (SI 2009 No. 1920) – Explanatory Note; [HC Deb, 17 December 2008, c1162-70](#)

<sup>15</sup> *Ibid*

<sup>16</sup> The Parliamentary Contributory Pension Fund: Members’ E-Booklet – Ministerial Section, June 2011 p15

### **Survivors' benefits**

A lump sum death gratuity on death in service, equal to four times the ministerial salary, is payable at the Trustee's discretion. In addition, a spouse or surviving partner's pension is payable at 5/8ths of the prospective pension. Survivors' pensions are paid to both spouses and civil partners on the same basis. Unmarried partners will only receive a survivor's pension if they have been nominated using the Trustee's nomination form, and other requirements may apply, for example the proof of financial dependency or interdependency over a minimum of two years. A pension is also payable to dependent children - up to a maximum of two children at any one time. The allowance per child is 3/16ths of the pension built up at the date of death (4/16ths if there is just one dependent child).

### **Pension benefits for Ministers who are also MPs**

There are a number of factors which affect the amount of pension benefit an individual member of the scheme who has served both as an MP and as a Minister may receive in benefits. These include:

- salary levels varying within each contribution year;
- different participation periods as MP and Minister;
- different figures for relevant terminal salary; and
- different pension increase beginning dates.

As explained above, the [Constitutional Reform and Governance Act 2010](#) (CRAG) created two main pension schemes funded by the Parliamentary Contributory Pension Fund – one covering MPs and Committee Chairmen, the other one for Ministers and other Office Holders paid under the Ministerial and other Salaries Act 1975. Recent changes in the contribution rates for the members of these respective schemes have led to differences between the schemes that previously did not exist.

The pension entitlement of a Minister is derived from the “contribution factors” determined for each year where there has been some ministerial service. These “contribution factors” are ratios of:

- the additional contributions that would have been made by the individual on the contribution rates applying on 31 March 2012 in respect of his pay as a minister (excluding his pay as an MP) in the relevant year; to
- the level of contribution an ordinary MP would have made (on the assumption of participation in the scheme as an MP for the full 12-month period) on the contribution rates applying on 31 March 2012.<sup>17</sup>

Using the contribution rates as of 31 March 2012 ensures consistency in the calculation of Ministerial benefits.<sup>18</sup>

The Ministerial Section pension benefit is then calculated by using the sum of the contribution factors over the relevant years:

- $\text{accrual rate} \times \text{final pensionable salary} \times \text{the total of contribution factors}$

---

<sup>17</sup> Under Regulation F4 (2) (b) of the *Parliamentary Pensions (Consolidation and Amendment) Regulations 1993*

<sup>18</sup> Source: Cabinet Office

The Minister will also receive a pension from the MPs' Section, calculated at:

- accrual rate x final pensionable salary as an MP x Number of Years as an MP

For Ministers, the relevant terminal salary is based on the average 12 month pay of an MP ending on the same date as the cessation of ministerial service.<sup>19</sup> The date after Ministerial service ends, the supplementary pension is deferred and uprated in line with inflation until the pension is claimed. This date is referred to as the 'pensions increase beginning date'. This means that, if the individual continues as an MP for some time after cessation of service as a Minister, there will be different definitions of final pensionable salary and different "pensions increase beginning dates" applying to benefits earned as an MP and as a Minister. There is a limit on the benefits the Fund can pay when a Member reaches retirement.<sup>20</sup>

### 1.3 Transfer of responsibility

In November 2009, the Committee on Standards in Public Life (CSPL) recommended that:

The independent determination of MPs' pay and pensions should be entrenched in primary legislation in the same way as expenses. The independent regulator should therefore be given statutory responsibility for setting MPs' pay levels and overseeing MPs' pensions as well as for dealing with expenses.<sup>21</sup>

The *Constitutional Reform and Governance Act 2010* provided for the transfer of the responsibility for oversight of Ministers' Pensions to the Minister for the Civil Service (and of MPs' pensions to the Independent Parliamentary Standards Authority (IPSA)).<sup>22</sup> Introducing the clauses on 1 February 2010, Justice Secretary, Jack Straw explained that this:

[...] would provide for IPSA to make pension schemes for MPs and for the Minister for the Civil Service to make pension schemes for Ministers and certain other office holders, such as the Leader of the Opposition. That contrasts with the current arrangements, whereby the Leader of the House determines pension arrangements through regulations.<sup>23</sup>

Effectively, it provided for the Minister for the Civil Service to have the power to determine future service pension benefits and member contribution rates, but only in relation to Ministers' pensions, including the Opposition leader and the Whips. The Minister may also appoint one trustee to the PCPF (after consulting IPSA and the existing Trustees). The Explanatory Notes set out the framework for this:

246. *Paragraph 16* provides that the Minister for the Civil Service may make a scheme containing provision about the provision of pensions out of the Fund in respect of service as a Minister or other office-holder. *Sub-paragraph (2)* defines the offices concerned, and *sub-paragraph (3)* makes clear that they do not include the Lord Chancellor, Prime Minister or Speaker of the House of Commons. Section 2(1) of the

---

<sup>19</sup> House of Commons Department of Resources, *Parliamentary Contributory Pension Fund (PCPF) – Booklet for Office Holders* (April 2009), p12

<sup>20</sup> House of Commons Department of Resources, *Parliamentary Contributory Pension Fund: Maximum Benefits – Information Sheet 3*

<sup>21</sup> Committee on Standards in Public Life, *MPs' expenses and allowances – Supporting Parliament, safeguarding the taxpayer*, Twelfth Report, Cm 7724, November 2009; This is covered in more detail in The CSPL report is covered in more detail in Library Standard Note SN/BT 5188, *Committee on Standards in Public Life's Review of Members' Allowances*.

<sup>22</sup> Section 40 and Schedule 6

<sup>23</sup> HC Deb, 1 February 2010, c55



1987 Act currently provides that the Leader of the House of Commons may make such provision by regulations with the consent of the Minister for the Civil Service.

247. *Paragraph 17* describes what provisions, in particular, may be included in Ministers' pension schemes by reference to *paragraphs 24 to 32 and 34* of the Schedule. Certain provisions may only be included with the consent of the trustees of the Fund.

248. *Paragraph 18* defines the procedure for making a Ministers' pension scheme. *Sub-paragraph (1)* provides that before making such a scheme, the Minister must consult the IPSA, the Government Actuary, the trustees and any other person the Minister considers appropriate. Under *sub-paragraph (2)* the Minister must lay before each House of Parliament any scheme and a statement of the reasons for making it, together with any representations made by the trustees. Under *sub-paragraph (3)* the Minister must publish the scheme and statement of reasons. Section 2(1) of the 1987 Act currently provides that the Leader of the House of Commons may make provision about the provision of pensions for Ministers and other office-holders by regulations, with the consent of the Minister for the Civil Service.

249. *Paragraph 19* makes provision for the protection of accrued rights of scheme members when the IPSA makes a MPs' pension scheme, or where the Minister for the Civil Service makes a Ministers' etc pension scheme. Under *sub-paragraphs (2) and (3)* schemes must not make any provision in relation to an accrued right which puts (or might put) a person in a worse position than the person would have been in apart from the provision, unless the trustees of the Fund consent to the scheme making the provision and the person making the new scheme is satisfied that the consent requirements set out in *sub-paragraphs (4) to (6)* are met.

250. *Paragraph 20* defines accrued rights.

251. *Paragraph 21* provides that the Minister for the Civil Service may by order modify any enactment or subordinate legislation if he considers it appropriate as a result of any provision of a scheme made by him or the IPSA. Paragraph 13 of Schedule 1 to the 1987 Act (read with section 2 of that Act) currently provides that the Leader of the House of Commons may make such modification by regulations with the consent of the Minister for the Civil Service.

252. *Sub-paragraphs (1) and (2) of paragraph 22* provide that schemes made by the IPSA or the Minister for the Civil Service can amend or revoke previous schemes made by them.<sup>24</sup>

The [Constitutional Reform and Governance Act 2010](#) received Royal Assent in April 2010. The Order commencing section 40 and Schedule 6 came into force on 24 October 2011.<sup>25</sup>

#### **1.4 Proposals for reform**

In January 2008 the Review Body on Senior Salaries (SSRB) recommended that any increase or decrease in pension cost pressures should be shared between the contributors and the Exchequer. It also recommended that the Exchequer contribution to the cost of benefit accrual should be limited to 20 per cent of payroll and that, if it was likely to rise above this level, there should be a major review of the Fund. These recommendations were endorsed in principle by the House. In June 2008, the Government Actuary's Department advised that the cost was likely to rise above 20 per cent, effectively triggering the need for a

---

<sup>24</sup> [Explanatory Notes to the Constitutional Reform and Governance Act 2010](#)

<sup>25</sup> [The Constitutional Reform and Governance Act 2010 \(Commencement No. 6, Specified Day and Transitional Provision\) Order 2011](#) (SI 2011/2485)

major review. The report of the SSRB review was published on 26 July 2010. Its recommendations included retaining a Defined Benefit scheme for MPs, but based on career average earnings and with a higher retirement age.<sup>26</sup>

Responding to the SSRB's [Review of the Parliamentary Contributory Pension Fund 2010](#), Leader of the House, Sir George Young, said the Conservative-Liberal Democrat Coalition Government believed that decisions on the future of the scheme should be informed by subsequent developments, including Lord Hutton's Independent Public Service Pensions Commission, which it had set up to review public service pensions more generally.<sup>27</sup> The Commission had been set up in June 2010:

To conduct a fundamental structural review of public service pension provision and to make recommendations to the Chancellor and Chief Secretary on 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.<sup>28</sup>

The Commission's interim report, published in October 2010, concluded that the most effective way of making short-term savings was to increase member contributions and that there was a clear case for doing this.<sup>29</sup> In response, the Government said it would implement progressive changes to the level of employee contributions across the public service (except for the armed forces), equivalent to an average of 3.2 percentage points, to be phased in from April 2012.<sup>30</sup>

Recommendations of the Commission's final report, published in March, included replacing existing schemes with new ones, with pension entitlement based on career average earnings rather than final salary, and increasing the normal pension age.<sup>31</sup> The Government said it accepted Lord Hutton's recommendations as a basis for consultation. Chancellor of the Exchequer, George Osborne said he believed "the House should also recommend similar changes to the pensions of MPs".<sup>32</sup>

On 14 July, Leader of the House, Sir George Young, made a statement on the next step in the Government's approach to MPs' pensions. He would table a motion proposing that IPSA should introduce a new pension scheme for MPs by 2015.<sup>33</sup> The motion, which was agreed to by the House on 17 October 2011, said:

That this House reasserts its view that the salaries, pensions and expenses scheme for hon. Members ought to be determined independently of this House; accordingly invites the Leader of the House to make an order commencing those provisions of the *Constitutional Reform and Governance Act 2010* which transfer responsibility for the pensions of hon. Members to the Independent Parliamentary Standards Authority (IPSA); supports the approach to public service pension reform set out in the Final Report of the Independent Public Service Pensions Commission chaired by Lord

---

<sup>26</sup> Review Body on Senior Salaries, [Review of the Parliamentary Contributory Pension Fund 2010](#), July 2010, Cm 7926

<sup>27</sup> [HC Deb, 26 July 2010, c70-71WS](#)

<sup>28</sup> [HM Treasury Press Release, 20 June 2010, Chancellor announces John Hutton to chair commission on public service pensions](#)

<sup>29</sup> [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010

<sup>30</sup> HM Treasury, [Spending Review – policy costings](#), October 2010; [HC Deb, 24 May 2011, c589W](#)

<sup>31</sup> [Independent Public Service Pensions Commission: Final Report](#), 10 March 2011

<sup>32</sup> [HC Deb, 23 March 2011, c961](#); See also [HC Deb, 29 June 2011, 956](#)

<sup>33</sup> [HC Deb, 14 July 2011, c51-2WS](#)

Hutton of Furness; believes that IPSA should introduce, by 2015, a new pension scheme for hon. Members which is informed by the Commission's findings and their subsequent application to other public service pension schemes; recognises the case for an increase in pension contributions made in Lord Hutton's interim report; and accordingly invites IPSA to increase contribution rates for hon. Members from 1 April 2012 in line with changes in pension contribution rates for other public service schemes.<sup>34</sup>

### **Contribution increases**

Increases to Ministers' pension contributions were announced in a Written Ministerial Statement on 15 March 2012:

Last year, I consulted on proposals to make increases to member contributions in 2012-13 and this consultation concluded on 13 January. Having given careful consideration to the responses, I have decided to implement these proposals effective from 1 April 2012.

This will mean that:

Secretaries of State, the Leader of the Opposition in the Commons and Speaker in the House of Lords will pay an additional 2.4 percentage points of pay;

Ministers of State, the Government Chief Whip, the Leader of the Opposition in the Lords, the Chairman of Committees of the House of Lords and the Deputy Chairman of Committees of the House of Lords will pay an additional 1.6 percentage points of pay; and

Parliamentary Under-Secretaries, the Government Whips and Opposition Whips will pay an additional one percentage point of pay.

[...]

The increased contributions will deliver an average of 1.7% percentage points of pay for the Ministerial pension scheme's membership. These additional contributions will mean that the increase in Exchequer contributions expected following the latest valuation of the parliamentary contributory pension fund will be lower than otherwise expected. Further, the Exchequer contribution will be reduced further to reflect increases in 2013-14 and 2014-15, following advice from the Government Actuary.

Ministers in the House of Commons make separate contributions towards their pensions as MPs. Responsibility for the setting of pension provision for MPs is the responsibility of the Independent Parliamentary Standards Authority, which has consulted on proposals to increase MPs' contribution increases.<sup>35</sup>

A further Written Ministerial Statement on 1 May announced an amendment to ensure that the change in contributions announced on 15 March did not "inadvertently increase the benefits earned by members of the scheme":

On 15 March I laid before the House an amendment scheme to the Ministerial Pension Scheme to introduce an increase in member contributions from April 2012 and set out the detail in a Written Ministerial Statement. In order to ensure that this change in contributions does not inadvertently increase the benefits earned by the members of

---

<sup>34</sup> [HC Deb, 17 October 2011, c629](#)

<sup>35</sup> [HC Deb, 15 March 2011, c33-4WS](#); The increases were provided for in the *Parliamentary Pensions (Consolidation and Amendment) Regulation 1993 (Ministers' etc Pension Scheme) (Amendment) Scheme 2012*.

this pension scheme, which are determined by a complex calculation, it is now necessary to make some further small technical changes by way of an amendment scheme.

I have notified the trustees of the Parliamentary Contributory Pension Fund, the Independent Parliamentary Standards Authority and the Government Actuary of the need for this further technical amendment scheme to deliver the contribution increase on which I consulted last year.

The details of the amendment scheme have been laid before the House.<sup>36</sup>

IPSA announced on 19 March 2012 that from 1 April 2012 there would be a 1.85% increase to contribution rates for MPs, applying to future service only.<sup>37</sup> Ministers who are also MPs, therefore, pay a contribution rate of 1.85% on their salary as an MP. On their salary as a Minister (in excess of their MPs' salary), the contribution rate depends on the office held (see the table in section 1.2 above).

On 26 March 2013, the Minister for the Civil Service announced that contribution rates for members of the Ministerial Pension Scheme would increase again in April 2013. A further consultation would take place on contribution increases for 2014/15:

**Francis Maude:** In the Spending Review 2010, the Government announced its intention to increase employee contributions in public service pension schemes. This followed on from Lord Hutton's interim report on public service pensions which concluded that there was a clear rationale for public servants to make a greater contribution if their pensions were to remain fair to taxpayers and employees and affordable for the country.

The Ministerial Pension Scheme was not covered by Lord Hutton's recommendations, but I consider it appropriate that its members face similar changes.

In 2012/13 pension contributions were increased in a similar way as applied to other public service pension schemes, and further increases for 2013/14 will apply from 1 April 2013. This will mean that:

- Secretaries of State, the Leader of the Opposition in the Commons and Speaker in the House of Lords will pay an additional 2.4 percentage points of pay, and a total of 4.8% higher than 2011/12;
- Ministers of State, the Government Chief Whip, the Leader of the Opposition in the Lords, the Chairman of Committees of the House of Lords and the Deputy Chairman of Committees of the House of Lords will pay an additional 1.6 percentage points of pay and a total of 3.2% higher than 2011/12; and
- Parliamentary Under Secretaries, the Government Whips and Opposition Whips will pay an additional 1 percentage point of pay and a total of 2% higher than 2011/12.

In line with other public service schemes, a further consultation will take place on the contribution increases for members of the Ministerial Pension Scheme in 2014/15. Before these increases are implemented, I will consider any evidence of opt-outs from the scheme in line with the Government's commitment given by the Chief Secretary to the Treasury.

---

<sup>36</sup> [HC Deb, 1 May 2012; c57WS](#)

<sup>37</sup> [IPSA, MPs' Pensions. Report on the consultation, March 2012](#)

Ministers in the House of Commons make separate contributions towards their pensions as Members of Parliament. Responsibility for the setting of pension provision for MPs is the responsibility of the Independent Parliamentary Standards Authority.<sup>38</sup>

As this explains, Ministers in the House of Commons make separate contributions towards their pensions as MPs. The Independent Parliamentary Standards Authority (IPSA) is responsible for oversight of the MPs' Pension Scheme (MPS). In March 2012, IPSA announced that MPs' contribution rates would increase by 1.85% from 1 April 2012.<sup>39</sup> It has not consulted on whether MPs' contribution rates should increase in April 2013 but, as part of its consultation on longer-term reform of MPs' pay and pensions, is considering what should be the appropriate proportion of contributions from the MP and the taxpayer.<sup>40</sup> This is discussed in more detail in Library Standard Note SN 6283 [MPs' Pension Scheme – 2012 onwards](#) (section 3.5). There is a table showing Ministers' contribution rates in 2013/13 in section 1.2 above.

### ***Longer term reform***

In his letter to the chair of the PCPF Trustees of 24 January 2012, the Minister for the Civil Service said:

While Lord Hutton's Commission did not specifically look at the Ministerial Pension Scheme, the same issues apply and I do not therefore agree that a review of the Ministers Pension Scheme is needed before contributions are increased. I remain of the view that we cannot expect public service workers, some of whom are very modestly paid – to take on a burden which we are not prepared to assume for ourselves.

[...]

As I set out above, the increase of contributions in other public service schemes is not predicated on the need for the design of future reforms to be settled. However, you will be aware that the Chief Secretary to the Treasury made an oral statement on 20 December which reported the significant progress made in the main public service scheme in respect of future pension scheme designs. I will of course be setting in train work on the future design of the Ministerial Pension Scheme, which will take account of these developments and any specific issues relevant to the membership and will keep the trustees informed.<sup>41</sup>

IPSA has announced details of its plans to reform the MP's scheme

## **2 Pensions for the great offices of state**

### **2.1 Background**

#### ***The Prime Minister and the Speaker***

Under legislation in place before the [Public Service Pensions Act 2013](#), the Prime Minister, House of Commons Speaker and the Lord Chancellor had special pension arrangements. From their first day in office, they were entitled to a pension equal to one half of their final salary when the leave that office, regardless of age or length of service. An archived version of the website of the Leader of the House of Commons explains:

---

<sup>38</sup> Written Ministerial Statement, 26 March 2013

<sup>39</sup> [IPSA, MPs' Pensions Report on the Consultation, March 2012](#)

<sup>40</sup> IPSA, [Reviewing MPs' Pay and Pensions – A First Report, January 2013](#)

<sup>41</sup> Letter to Brian Donohoe MP, 24 January 2012

Prime Ministers, Speakers and Lord Chancellors are entitled to pensions paid directly from the Consolidated Fund on leaving office. The pensions are ex officio: there is no minimum qualifying period and no contributions are payable. These arrangements stem from Parliament's desire to protect the dignity of the "Three Great Offices of State".

The *Parliamentary and Other Pensions Act 1972*, as amended by the Ministerial and other *Pensions and Salaries Act 1991*, entitles current and future holders of all three offices to pensions of one half of the annual salary payable at the time they leave office. The only condition for payment is that a former Prime Minister or Speaker is not in receipt of any salary payable from the Consolidated Fund or the revenues of the Duchy of Lancaster, or out of monies provided by Parliament other than the Parliamentary salary.<sup>42</sup>

The [2013 Act](#) ended these special arrangements for future holders of these offices - see section 2.2 below. This section deals with the arrangements to date.

The old arrangements were introduced in 1991 under the *Ministerial and Other Pensions and Salaries Act 1991*, which amended the *Parliamentary and Other Pensions Act 1972*. The then Leader of the House of Commons, John MacGregor, outlined the history of these arrangements in his speech on Second Reading of the Bill:

Clause 1 makes changes to the statutory ex officio pensions paid to the Prime Minister, Mr. Speaker and the Lord Chancellor. The Lord Chancellor has been entitled to a life pension since before 1830, while Mr. Speaker's pension until 1972, granted to each retiring Speaker personally by a special Act of Parliament, dates from 1832. The statutory pension for the Prime Minister dates from 1937. The justification for these special arrangements is the recognition of the high responsibilities of the three offices. The pensions are payable not out of the parliamentary contributory pension fund but out of the Consolidated Fund.

Arrangements for these pensions were consolidated in the *Parliamentary and other Pensions Act 1972* which fixed the Prime Minister's pension at 15/40ths, Mr Speaker's at 20/40ths and the Lord Chancellor at 17/40ths of salary. These fractions have been maintained since then whenever salaries have been increased.

The TSRB [Top Salary Review Body] in its 1988 report recommended that instead of the different pension ratios for each of the offices, current and future office holders should be entitled to pensions of one half of their final salary. Clause 1 therefore amends the 1972 Act so that the office holders all receive a common pension ratio of one half of final salary.

Currently there is a restriction on the pensions increase that may be paid to former office holders. For example, the basic pension of a former Prime Minister is uprated under the *Pensions (Increase) Act 1971* until it reaches the level the incumbent Prime Minister is entitled to no further pensions increase unless the Prime Minister's salary rises. This penalises former Prime Ministers who have not received the annual pensions increase uprating received by all other public service pensioners. The TSRB recommended that this restriction should be lifted and we shall be laying regulations under the *Pensions (Increase) Act 1971* to give effect to that recommendation. Taking that into account, and the previous operation of the capping restriction, we felt that we

---

<sup>42</sup> [Leader of the House of Commons website – snapshot taken 3 March 2010](#). The Consolidated Fund is the Government's general bank account at the Bank of England. Payments from this account must be authorised in advance by the House of Commons.

should take the opportunity in this Bill to set the pension level of all former Prime Ministers at the same figure as the present Prime Minister would be entitled to. Accordingly, clause 1(5) provides for this. That will be the basis on which the pension will henceforward be index-linked. Clause 2 amends the Parliamentary and other Pensions Act 1987 so that regulations may be made to permit the Prime Minister and Mr. Speaker to participate in the parliamentary contributory pension fund. The TSRB argued that there was no good reason for the exclusion and that the Prime Minister and Mr Speaker should be given the option of participating. The TSRB concluded, however, that this participation should not operate retrospectively. The regulations will cover that point.<sup>43</sup>

The pensions of the Prime Minister and the Speaker were set out under section 26 of the *Parliamentary and Other Pensions Act 1972*, as amended:

### **26 Pensions of Prime Minister and Speaker**

(1) Any person who has (whether before or after the passing of this Act) been appointed Prime Minister and First Lord of the Treasury, or elected Speaker of the House of Commons and has after 1<sup>st</sup> April 1972 (whether before or after the passing of this Act) ceased to be the Prime Minister and First Lord of the Treasury, or ceased to be Speaker, as the case may be, shall, subject to the next following subsection, be entitled to receive a pension under this section.

(2) No pension shall be payable under this section to any person so long as he is in receipt of any salary payable out of the Consolidated Fund or out of the revenues of the Duchy of Lancaster, or so long as he is in receipt of any salary payable out of money provided by Parliament other than a salary or allowance payable out of moneys so provided in respect of his membership of the House of Commons.

(3) Subject to section 31 of the Act, the annual amount of a pension payable to a person under this section in respect of the office of Prime Minister and First Lord of the Treasury shall be equal to one-half of the annual amount of the salary payable in respect of that office at the time that person ceases to hold it.

(4) Subject to section 31 of this Act, the annual amount of a pension payable to a person under this section in respect of the office of the Speaker of the House of Commons shall be equal to one-half of the annual amount of the salary payable in respect of that office at the time when that person ceases to hold it.

(5) Any pension payable under this section shall be charged on and paid out of the Consolidated Fund.

The only conditions for payment were that a former Prime Minister or Speaker was not in receipt of any salary payable from the Consolidated Fund or the revenues of the Duchy of Lancaster, or out of monies provided by Parliament other than the Parliamentary salary. Pensions could therefore be drawn after the individual ceased to hold that office, even if they remained as a MP.

---

<sup>43</sup> HC Deb 31 January 1991, cc1139-1140

The same indexation arrangements apply to these pensions as apply to other public service pensions. This means that from April 2011, they are uprated annually in line with the Consumer Prices Index (CPI).<sup>44</sup>

The *Ministerial and other Pensions and Salaries Act 1991* also allowed the Prime Minister and Speaker to participate in the pension scheme for MPs – the Parliamentary Contributory Pension Fund. On appointment, the Prime Minister and Speaker may also choose between having all of their net contributions to the PCPF refunded, or those prior to February 1991. In the former case, no benefits are then payable from the PCPF. In the latter, benefits are paid from the PCPF in respect of service since 1991.<sup>45</sup>

The *Parliamentary and Other Pensions Act 1972*, as amended by the *Parliamentary and Other Pensions Act 1987*, gives the Leader of the House powers (exercisable by statutory instrument) to make pension provision for dependants of former Prime Ministers and Speakers. These pensions are paid from the Consolidated Fund on a similar basis to dependants' pensions in the PCPF.<sup>46</sup>

An archived version of the [Office of the Leader of the House website](#) provides an overview of the arrangements as at March 2010.

### **The Lord Chancellor**

Under the *Lord Chancellor's Pension Act 1832*, the Lord Chancellor was entitled to an annuity of £5,000 per annum. This annuity was paid from the consolidated fund on a quarterly basis, until he died.<sup>47</sup> The *Parliamentary and Other Pensions Act 1972* discontinued the practice of setting a fixed amount as the pension and instead established a linkage with salary. The *Parliamentary and Other Pensions Act 1991* set the pension at 50% of salary payable from the Consolidated Fund, payable immediately on leaving office (unless another salaried office or pension is held) regardless of length of tenure.

The 2008 SSRB Report *Review of Parliamentary Pay, Pensions and Allowances 2007* recommended that the special arrangements for the pension of the Lord Chancellor should no longer apply, and instead the normal arrangements for Cabinet Ministers should be used.<sup>48</sup> The Government agreed with this recommendation.<sup>49</sup> This is discussed in more detail in section four below. This section sets out the position to date.

Opening the Second Reading debate on the *Parliamentary and Other Pensions Bill 1991*, Sir John Butterfill explained that:

Clause 3 relates the salary of the Lord Chancellor to that of the Lord Chief Justice. The House may recall that the 1983 TSRB report recommended that the Lord Chancellor should receive a slight salary lead over the Lord Chief Justice in recognition of his role as head of the judiciary. The lead was established at £2,000 and remained at that level until last year. Each increase to the Lord Chancellor's salary currently requires a Lord

---

<sup>44</sup> This is discussed in more detail in Library Standard Note SN 5434 [Public service pension increases](#). This is because the pensions for each of the three great offices of state count as official pensions under the *Pensions Increase Act 1971*, schedule 2, para (1) and (2)

<sup>45</sup> Review Body on Senior Salaries, [Review of Parliamentary Pay, Pensions and Allowances 2007](#)., Cm 7270, (January 2008), para 4.22

<sup>46</sup> Office of the Leader of the House website – [Pensions for Prime Minister, Speaker and Lord Chancellor](#)

<sup>47</sup> Section 3 *Lord Chancellor's Pension Act 1832*

<sup>48</sup> Review Body on Senior Salaries' [Review of Parliamentary Pay, Pensions and Allowances 2007](#), Cm 7270 (January 2008)

<sup>49</sup> HC Deb 16 January 2008 c34WS



Chancellor's salary order which is subject to an affirmative resolution of both Houses. To implement the salary lead in legislation will end the need for an annual order. I am sure the House will agree that that is sensible.<sup>50</sup>

Under the terms of the *Ministerial and Other Salaries Act 1975* the Lord Chancellor's salary entitlement was set at £2,000 more than that of the Lord Chief Justice.<sup>51</sup> This was increased to £2,500 by the *Ministerial and Other Salaries Order 1996*.<sup>52</sup>

In 2003 the Government announced its intention to abolish the office of Lord Chancellor, with his ministerial functions passed to a Secretary of State, his judicial functions passing to the Lord Chief Justice, and his functions as Speaker of the House of Lords passed to a Speaker elected by the House of Lords itself. The *Constitutional Reform Bill* was introduced in February 2004. During the extensive debates on the Government's proposals, the Government agreed to keep the name of the office of Lord Chancellor for the holder of the ministerial functions. The Bill provided for the separation of the offices of Lord Chancellor and Speaker of the House of Lords. It was left for the House of Lords to decide arrangements concerning the Speakership of the House of Lords (see below).

The salary for pension purposes included the salary paid to the Lord Chancellor as Speaker of the House of Lords. There was no separate pension payable in respect of that office or as a member of the House of Lords.<sup>53</sup> In 2006 the Lord Chancellor's salary payable to him in respect of his position as Speaker of the House of Lords was £29,946.<sup>54</sup>

During the Committee stage of the *Constitutional Reform Act 2005* on the 11 October 2004, the then Lord Chancellor, Lord Falconer of Thoroton, stated that:

...the Lord Chancellor will perform those functions that the Bill in its present form currently allocates to the Secretary of State for Constitutional Affairs; the Great Seal will remain with the Lord Chancellor; the Lord Chancellor will retain the current pension and salary arrangements of his office. In bringing forward such amendments our purpose is to ensure that the Bill gives effect to the will of this place. But, of course, that does not preclude the Government from seeking to restore the position of the Secretary of State for Constitutional Affairs in another place.<sup>55</sup>

This aspect was unamended and undebated when the Bill went to the House of Commons. The special Lords Committee which was established to consider the Bill did not consider the future pensions arrangements of the Lord Chancellor.<sup>56</sup> Neither did the Commons Constitutional Affairs Select Committee in their report on the Government's proposals.<sup>57</sup>

The *Parliamentary and Other Pensions Act 1972* was further amended in 2006 to read:

(1) Subject to section 31 of this Act, the annual amount of any pension granted under section 3 of the Lord Chancellor's Pension Act 1832 shall, in the case of a

---

<sup>50</sup> HC Deb 31 January 1991, cc1139-1140

<sup>51</sup> *Ministerial and other salaries Act 1975* s1(3).

<sup>52</sup> SI 1996/1913 s4

<sup>53</sup> Department for Constitutional Affairs, [Pension arrangements of the Secretary of State for Constitutional Affairs and Lord Chancellor](#), January 2005

<sup>54</sup> House of Lords, *Resource Accounts 2005-2006*, 24 July 2006, HL 238, p5

<sup>55</sup> HL Deb 11 Oct 2004 c13

<sup>56</sup> Lords Select Committee on the Constitutional Reform Bill, *Constitutional Reform Bill [HL]*, 2 July 2004, HL 125 2003-04

<sup>57</sup> Constitutional Affairs Select Committee, *Constitutional Reform Bill [Lords]: The Government's proposals*, 28 January 2005 2004-05, HC 275

person resigning the office of Lord Chancellor, be equal to one-half of the annual amount of the salary which, at the time when he ceases to hold that office, is payable to a holder of that office who is not also Speaker of the House of Lords.<sup>58</sup>

Section 17 of the *Judicial Pensions Act 1981* provides for a lump sum to be paid to the Lord Chancellor on retirement from office, or to his personal representative should he die in office:

**17 Lump sum on retirement or death**

(1) Where a person on retirement becomes eligible for a pension for service in any judicial office, he may be granted a lump sum equal to twice the annual amount of that pension.

(2) Where a person was serving in any judicial office at the time of his death and, if he had then retired on the ground of permanent infirmity, would have become eligible for a pension for that service, his legal personal representatives may be granted a lump sum equal to—

(a) twice the annual amount of the pension for which he would have been so eligible, or

(b) his last annual salary,

whichever is the greater.

(3) Where a person on retirement becomes eligible for a pension for service in any judicial office but dies so soon after that the sums paid or payable to him on account of that pension plus an amount equal to twice the annual amount of that pension fall short of his last annual salary for such service, his legal personal representatives may be granted a lump sum equal to the deficiency.

4) In relation to [any] office pensionable under section 12 above, any reference in this section to last annual salary is a reference to last annual remuneration apart from any allowances.

The Lord Chancellor's widow is also entitled to a pension of one half of the Lord Chancellor's pension in the event of his death.<sup>59</sup> If the Lord Chancellor leaves any dependent children, either aged under 16 or in full time education or training, they are entitled to a children's pension.<sup>60</sup> If only one child qualifies for a pension they will receive a pension of one-third of the Lord Chancellor's pension, and if 2 or more children qualify they will receive between them a pension of two-thirds of the Lord Chancellor's pension.<sup>61</sup>

As Lord Chancellor, Lord Falconer did not draw his full salary entitlement, instead electing to receive a salary and pension equivalent to that received by other Secretary's of State in the House of Lords. In July 2003 the Conservative Spokesman Oliver Heald asked the Prime Minister:

**Mr. Heald:** To ask the Prime Minister whether the Secretary of State for Constitutional Affairs will receive the pension entitlement of the Lord Chancellor (a) during the planned transition period before the proposed abolition of the office and (b) subsequently, if the office is abolished; and if he will make a statement. [120022]

---

<sup>58</sup> *Parliamentary and other Pensions Act 1972*, s28 as amended by SI 2006/1640

<sup>59</sup> Section 19 *Judicial Pensions Act 1981*

<sup>60</sup> Section 21 *Judicial Pensions Act 1981*

<sup>61</sup> Section 22 *Judicial Pensions Act 1981*

**The Prime Minister:** No. The Secretary of State for Constitutional Affairs has elected to receive only a salary and pension equivalent to that received by other Secretaries of State in the House of Lords.<sup>62</sup>

Lord Falconer left office in July 2007. The Prime Minister Gordon Brown appointed Jack Straw to the post, making him the first Lord Chancellor not to sit in the House of Lords. Press reports at the end of 2007 suggested that the pension arrangements of the previous Lord Chancellor, Lord Falconer, were potentially subject to litigation.<sup>63</sup>

## 2.2 Reforms

### **Senior Salaries Review Body report - 2008**

On 25 July 2006 the then Leader of the House of Commons, Jack Straw, announced the next triennial review of parliamentary pay, pensions and allowances by the Review Body on Senior Salaries.<sup>64</sup> Responses to the consultation were required by December 2006. The finished review was delivered to the Government in July 2007. On 26 July 2007, the final sitting day before the Summer Recess, in a written ministerial statement, Harriet Harman, the Leader of the House of Commons, announced that the SSRB's review of parliamentary pay and allowances had been completed:

**The Leader of the House of Commons (Ms Harriet Harman):** My right hon. Friend the Prime Minister has today received the 3rd triennial report from the Senior Salaries Review Body on Parliamentary Pay and Allowances.

The Government plan to publish the report in the autumn, followed shortly thereafter by consideration by both Houses in the normal way.

The Government are grateful for the work of Sir John Baker and his Committee.<sup>65</sup>

The SSRB report was published, along with a Written Ministerial Statement from the Leader of the House of Commons, on 16 January 2008.

The SSRB recommended the end of the special pensions arrangements for the Prime Minister, Lord Chancellor, and Speaker, to be introduced for the next holder of each of these offices. Their argument rested on the following points:

- it is no longer the case that such office holders are unlikely to enjoy further sources of employment or earnings after retirement;
- the salary and normal pension arrangements for all these posts have improved considerably (they pointed, in particular, to the option to choose an accrual rate of 1/40<sup>th</sup>, introduced in 2001);
- these pension arrangements are increasingly anomalous to public and private sector occupational pension provision more widely.

The SSRB stated that:

...the Prime Minister, Lord Chancellor and Speaker of the House of Commons also benefit from unusual pension arrangements by which from their first day in office they

---

<sup>62</sup> HC Deb 13 June 2003 cc393-4W

<sup>63</sup> See, for example, 'Lord Falconer 'plans to sue Brown for bigger pension'', *The Times*, 1 November 2007

<sup>64</sup> HC Deb, 25 July 2006, c102-3 WS,

<sup>65</sup> HC Deb 26 July 2007 c107WS

are entitled to a pension equal to one half of their final salary when the leave that office, regardless of age or length of service. These provisions were originally justified on the grounds that it would not be dignified for the Prime Minister and Speaker to have to seek employment after leaving office, and the Lord Chancellor, who must be a lawyer, should not return to practice. We do not believe these arguments remain valid. For all three posts, salaries and normal pension entitlements have improved substantially. The Speaker is invariably a long serving member of the Commons and by convention is not opposed at elections by the major political parties. He or she is therefore sure to be entitled to an adequate pension from the PCPF. The Prime Minister can now expect to have a career, or a portfolio of earning opportunities, after leaving office. The Lord Chancellor is also likely to have a variety of opportunities on leaving office. The previous Lord Chancellor proposed that judges should be able to resign or retire from the bench and return to practice, subject to suitable safeguards, and it is hard to see why the same should not apply to Lord Chancellors. We therefore make recommendations for new pension provisions for these posts.<sup>66</sup>

Later in the report the SSRB explained that:

...We come to this conclusion partly because we consider that former office holders are most unlikely to suffer financial hardship. They are likely to have plenty of suitable employment or other earnings opportunities and good pensions from the PCPF when they reach retirement age. Since their arrangements were established, there have been many improvements to the PCPF, including the option for 1/40<sup>th</sup> accrual. Our proposals on ministerial salaries are also relevant. A further consideration is that these pension arrangements appear increasingly anomalous at a time where rising life expectancy and reduced investment returns have led to higher contributions, reduced benefits or both in many occupational schemes. We therefore recommend that the special arrangements for the three office holders should be ended. We appreciate that current post holders may have legitimate expectations – indeed it would probably constitute retrospective effect to change their entitlements which have been in place from the first day in office – so we recommend that the change, which will need legislation, should not take effect until there is a change in the holder of each of the offices subsequent to the passing of the legislation.<sup>67</sup>

Their recommendation was that:

**Recommendation 16:** We recommend that the special pension arrangements in place for the Prime Minister, the Speaker of the House of Commons and the Lord Chancellor not be extended to new incumbents of these offices after the passing of the necessary legislation to end the existing arrangements. Instead those three office holders should be covered by the Parliamentary Contributory Pension Fund and arrangements for ministerial severance payments.<sup>68</sup>

As explained above, the Lord Chancellor has been entitled, by statute, to a salary of £2,500 more than that of the Lord Chief Justice. The SSRB noted that:

...This arrangement reflects the fact that until recently the Lord Chancellor was head of the judiciary, as well as Speaker of the House of Lords and a Cabinet Minister. However, legislation has removed from the Lord Chancellor the role of head of the judiciary, and reforms in the House of Lords mean that he no longer acts as Speaker. Accordingly, the previous Lord Chancellor drew only the salary of a Cabinet Minister in

---

<sup>66</sup> Review Body on Senior Salaries, *Review of Parliamentary pay, pensions and allowances 2007*, Cm 7270, (January 2008), para 4.6

<sup>67</sup> *Ibid*, para 4.23

<sup>68</sup> *Ibid*, p41

the House of Lords. There is no justification now for a higher salary and we recommend that henceforth the Lord Chancellor should receive the same salary as other Ministers of the same rank in the House in which he or she sits, and that the relevant legislation should if necessary be amended or repealed...<sup>69</sup>

The report also proposed changes affecting MPs' pensions.

The then Leader of the House of Commons, Harriet Harman, published a Written Ministerial Statement on 16 January 2008, the same day that the SSRB report was published. This accepted the end of the current pension arrangements for the Prime Minister and Lord Chancellor.<sup>70</sup> The then Prime Minister, Gordon Brown, and the then Lord Chancellor, Jack Straw, had decided this would also apply to them.<sup>71</sup>

### **Public Service Pensions Act 2013**

The *Public Service Pensions Act 2013* established a framework enabling the Government to introduce new public service pension schemes from April 2015 (2014 for local government).<sup>72</sup> It also changed the pension arrangements for future incumbents of the three great offices of state: Prime Minister, Lord Chancellor and the Speaker of the House of Commons. It provided for the previous arrangements to be closed and for future pension arrangements to be provided through the Ministerial pension scheme. The Explanatory Notes say:

#### **Section 33: Great offices of state.**

202. Section 33 and Schedule 11 amend the pension arrangements for future incumbents of certain great offices of state, which are the offices of Prime Minister, Lord Chancellor and the Speaker of the House of Commons.

203. The effect of these provisions is that the current special pension arrangements that apply to the great offices of state will cease to apply in relation to future office holders. Instead, pension and severance payments will be provided to and in respect of these office holders on the same basis as ministers and certain other office holders listed in paragraph 16(2) of Schedule 6 to the *Constitutional Reform and Governance Act 2010*.

204. Section 33 introduces Schedule 11 which contains amendments to existing legislation, which are required to give effect to the changes to the pension arrangements for the great offices of state.<sup>73</sup>

The provisions came into force on Royal Assent - 25 April 2013.<sup>74</sup> Changes then needed to be made to the Parliamentary Contributory Pension Fund scheme rules. On 17 July 2013, Minister for the Civil Service, Francis Maude, said:

#### **Ministerial Pensions**

The Minister for the Cabinet Office and Paymaster General (Mr Francis Maude): The *Public Service Pensions Act 2013* abolished separate pension arrangements for future holders of the great offices of state. Future holders of the great offices of state will instead accrue pension in the ministerial pension scheme.

---

<sup>69</sup> Review Body on Senior Salaries, *Review of Parliamentary pay, pensions and allowances 2007*, Cm 7270, (January 2008), para 4.13

<sup>70</sup> [HC Deb, 16 January 2008, c34WS](#);

<sup>71</sup> Downing St *Afternoon press briefing from 16 January 2008*

<sup>72</sup> See Library Research Paper RP 12/57 [Public Service Pensions Bill](#) for further details

<sup>73</sup> [Public Service Pensions Act 2013 – Explanatory Notes](#)

<sup>74</sup> Section 41

Amendments to allow future holders of the great offices of state to participate in the ministerial pension scheme are therefore required.

These amendments will:

- Allow future Lord Chancellors, Prime Ministers and Commons Speakers to remain members of the ministerial pension scheme on appointment.
- Allow the current Lord Chancellor to rejoin the ministerial pension scheme for future appointments.
- The changes do not affect the current Prime Minister and Speaker.
- The amendments do not make any provision in relation to an accrued right which puts—or might put—a person in a worse position than the person would have been in apart from the provision.

The details of the new scheme will be laid in the House today, along with a copy of the response to the consultation from the chairman of the parliamentary contributory pension fund trustees.<sup>75</sup>

The pensions of existing holders of these offices would continue to be met from the Consolidated Fund, including where they have chosen to sign a waiver to their entitlements:

Currently, the pension entitlements of the great offices of state are met through the Consolidated Fund and those benefits already earned under the current arrangements will continue to be paid from the Consolidated Fund to current and former holders of great offices of state. This includes those holders of the great offices of state who have chosen to sign a waiver to their entitlements and receive benefits comparable with those provided under the Ministerial Pension Scheme. In future the employing departments of holders of the great offices of state will pay employer contributions from departmental resources and the holders of the great offices will also pay member contributions as set out in the Ministerial Pension Scheme rules.<sup>76</sup>

In the Second Reading debate, Mr Alexander, explained that:

[...] the House should note that the Bill will also close the generous and outdated “great offices of state” pension schemes. They have outlived their usefulness in the modern world. I am glad that the Bill will close them to new office holders and will ensure that people in such roles are given the same pensions as Ministers. As I am sure Members are aware, the Prime Minister waived his entitlement to such a pension when he took office. The current Lord Chancellor is making arrangements to do likewise, as his predecessor did. Mr Speaker announced on the day that we published this Bill that he would retain the pension, but would take it only when he reached the age of 65 rather than drawing it as soon as he left office.<sup>77</sup>

Provision was also made to regularise the pay arrangements for future Lord Chancellors.<sup>78</sup>

### **3 Pension of the Lord Speaker**

After the Government announced its intention to pass the Lord Chancellor’s functions as Speaker of the House of Lords to a separate post of Speaker of the House of Lords, the

---

<sup>75</sup> [HC Deb 17 December 2013 c98WS](#)

<sup>76</sup> [HL Bill 67 – Explanatory Notes](#), para 284

<sup>77</sup> [HC Deb, 29 October 2012, c63](#)

<sup>78</sup> [PBC Deb, 22 November 2012, c439](#)

House of Lords was left to decide the details of the appointment and role of the new post.<sup>79</sup> The Select Committee on the Speakership of the House of Lords made recommendations which led to the new post of the Lord Speaker.<sup>80</sup> They also recommended that the Senior Salaries Review Body should be invited to propose salary and pension arrangements for the new post. On 29 March 2006, the House Committee of the House of Lords published a short report on the Lord Speaker's salary and pension.<sup>81</sup> It reported that the Senior Salaries Review Body had recommended that the salary of the Lord Speaker should initially be set at in line with a Cabinet Minister in the House of Lords; and that the Lord Speaker should have a pension in accordance with the normal pension provision for Ministers, MPs and office holders in the House of Lords. The report was debated on 2 May 2006,<sup>82</sup> and the *Lord Chancellor (Transfer of Functions) (No. 3) Order 2006* was approved by the House of Lords, without a division, following a short debate on 12 June 2006.<sup>83</sup>

In its report on the Review of Parliamentary Pay, Pensions and Allowances 2007, the SSRB explained that it had asked PricewaterhouseCoopers to carry out a job evaluation of the post in order to determine the appropriate pay. As the role was considered to still be developing, the SSRB recommended that "the salary of the Lord Speaker be pegged at its current rate on a 'mark time' basis until the next review of parliamentary pay and expenditure or until reform of the House of Lords".<sup>84</sup>

---

<sup>79</sup> See Library Standard Note SN/PC/3999, *Lord Speaker*

<sup>80</sup> Select Committee on the Speakership of the House, *The Speakership of the House of Lords*, 19 December 2005, HL 92 2005-06

<sup>81</sup> House of Lords House Committee, *1<sup>st</sup> Report of Session 2005-06*, 29 March 2006, HL 152 2005-06

<sup>82</sup> HL Deb 2 May 2006 cc397-417

<sup>83</sup> HL Deb 12 June 2006 cc12-14

<sup>84</sup> Review Body on Senior Salaries, *Review of Parliamentary pay, pensions and allowances 2007*, Cm 7270, p37, Recommendation 11