EXPLANATORY MEMORANDUM TO

THE PARLIAMENTARY PENSIONS (AMENDMENT) (NO 2) REGULATIONS 2009

2009 No. 3154

1. This explanatory memorandum has been prepared by The Cabinet Office and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Purpose of the instrument

2.1 This instrument amends the Parliamentary Pension Scheme to increase member contribution rates, introduce a new one-sixtieth accrual rate option, and give members the opportunity to switch accrual rates. It also applies the scheme's maximum pension limit of two-thirds of final salary to all scheme members for service from 1 April 2009.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None

4. Legislative Context

4.1 The Parliamentary and other Pensions Act 1987 ("the Act") provides for the existence of the Parliamentary Contributory Pension Fund and confers powers on the Leader of the House of Commons to make regulations making provision for pensions to be payable from the Fund for Members, Ministers and certain other office holders. Such provision has been made via the Parliamentary Pensions (Consolidation and Amendment) Regulations 1993, as amended from time to time (referred to, for ease, as the Parliamentary Pension Scheme).

4.2 The Leader of the House of Commons is now making further amendments to the Parliamentary Pension Scheme, with the consent of the Minister for the Civil Service.

4.3 The amendments to the Parliamentary Pension Scheme are retrospective. Section 2(4) of the Act permits the Leader of the House of Commons to make provisions which have effect from a date earlier than the date of the making of the regulations containing the provision.

4.4 Section 2(7) of the Act requires the Leader of the House of Commons to consult the Trustees of the Fund and persons appearing to her to represent persons likely to be affected by the amendments.

4.5 A resolution of the House of Commons on 17 December 2008 endorsed the introduction of a new one-sixtieth accrual rate as part of a package of changes to the Parliamentary Pension Scheme which also included changes to the ill-health retirement provisions [*Hansard columns 1162-1170*]. With the agreement of the Trustees of the Fund, the changes to the ill-health retirement provisions were made in July 2009 [*S.I. 2009/1920*], in advance of the accrual rate changes. A resolution of the House of Commons on 25 June 2009 [*Hansard columns 986-1018*] endorsed a cost-saving package of changes to the Scheme consisting of an increase in member contribution rates and the application of the benefit limit of two-thirds of final salary consistently across all scheme members.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

- ***What is being done and why***

7.1 The current scheme regulations give members the choice of paying a contribution of 6 per cent. of salary to build up benefits at an accrual rate of one-fiftieth of final salary for each year of service, or a contribution of 10 per cent. of salary to build up benefits at an accrual rate of one-fortieth.

7.2 The House of Commons agreed on 17 December 2008 that members should also be given a further option of a one-sixtieth accrual rate in return for a member contribution rate of 5.5 per cent. of salary, backdated to 1 April 2008.

7.3 On 25 June 2009, the House of Commons endorsed a cost-saving package of changes to the Parliamentary Pension Scheme, backdated to 1 April 2009.

7.4 The agreed package of cost-saving changes includes an increase in member contribution rates from 10 to 11.9 per cent. for a pension building up at an accrual rate of one-fortieth of final salary for each year of service, from 6 to 7.9 per cent. for a pension building up at an accrual rate of one-fiftieth, and from 5.5 to 5.9 per cent. for a pension building up at one-sixtieth.

7.5 Existing members have a one-off option to switch accrual rates (to one-fortieth, one-fiftieth or one-sixtieth) from 1 April 2009. Members can choose to backdate this option to 1 April 2008 (or the date of the individual becoming a member of the scheme, if later) if they wish.

7.6 The agreed package of cost-saving changes also includes a change in the application of the scheme's limit on maximum pension. The maximum

pension a scheme member can build up is normally two-thirds of final salary and, once that point has been reached, member contributions cease. However, these restrictions do not currently apply to members who joined the scheme before 1 June 1989 in respect of service after the age of 65. The House agreed that the scheme's maximum pension limit should be applied to all scheme members. This means that those who joined the scheme before 1 June 1989 will no longer be able to make contributions to build up benefits after age 65 in excess of the two-thirds limit (benefits built up before 1 April 2009 will not be affected).

7.7 The Government Actuary has advised that the increases in member contribution rates will produce savings of 1.7 per cent. of payroll, and application of the maximum pension limit to all scheme members will produce savings of 1.2 per cent. of payroll, thus saving 2.9 per cent. in total.

- ***Consolidation***

7.8 The Prime Minister has commissioned the Senior Salaries Review Body (SSRB) to conduct a fundamental review of the pension provision for Members of the House of Commons, Ministers and other Parliamentary office holders. The SSRB aims to conclude its review by the end of 2009 and, because it is possible that it will recommend fundamental reform, the Cabinet Office plans to await the outcome of the review before taking forward any consolidation of the Parliamentary Pension Scheme regulations.

8. Consultation outcome

8.1 In December 2008, the House of Commons debated and endorsed the introduction of the one-sixtieth accrual rate option. In June 2009, the House of Commons debated and endorsed the proposed package of changes to increase member contribution rates and to change the application of the scheme's maximum benefit limit. As required by the legislation, the Leader of the House has consulted the Trustees and Party representatives about this instrument. Changes in the detail of the options to switch accrual rates have been made as a result of comments made by the House of Commons Pensions Unit on behalf of the Trustees.

9. Guidance

9.1 Any guidance to members of the Parliamentary Pension Scheme will be provided by the House of Commons Pensions Unit.

10. Impact

10.1 There is no impact on business, charities or voluntary bodies.

10.2 There is no impact on the public sector.

10.3 An Impact Assessment has not been prepared for this instrument.

11. Regulating small business

11.1 The legislation does not apply to small business.

12. Monitoring & review

12.1 The management of the Parliamentary Pension Scheme and any monitoring of the arrangements is the responsibility of the Trustees, but the Senior Salaries Review Body undertake regular reviews of parliamentary pay, pensions and allowances.

13. Contact

Valerie Halsey at the Cabinet Office (tel: 0207 276 0845 or email: valerie.halsey@cabinet-office.x.gsi.gov.uk) can answer any queries regarding the instrument.