



NEWS RELEASE

Major reforms of MPs pensions should await a post-General Election wider review of public sector pensions, says ACA evidence to SSRB...

ACA CALLS FOR MPs PENSIONS TO MOVE TO CAREER AVERAGE WITH REGULAR REVIEWS OF RETIREMENT AGE

4 August 2009: The Association of Consulting Actuaries (ACA), which gave both oral and written evidence last week to the Senior Salaries Review Board's (SSRB) review of Parliamentary pensions, has said that any significant revision of MPs pensions should await a wider review of public sector pensions that seems likely following the General Election next year.

That wider review will need to go beyond the scope of earlier reviews of Parliamentary pensions and look across at the rapidly changing nature and level of pension provision in the private sector and what the taxpayer should be expected to contribute going forwards to the pensions of public sector employees in both funded and unfunded arrangements, says the ACA.

In the near-term, the ACA has made a number of recommendations that would cap the annual costs of the Parliamentary scheme in the period running up to a wider major review of public sector pensions, which may take some time to report and implement changes.

The ACA's main recommendations, designed to keep the Exchequer costs at 20% or below of payroll (the level which is now being exceeded and prompting the Prime Minister to ask for the present review), are as follows:

- **The MPs scheme should move to a career average structure:** whilst this is unlikely to have a significant impact in the short-term, given the recent trend of increases in MPs pay, it does provide protection if at some future stage the pay levels of MPs are re-aligned. This is needed in the event that there is no wider review of parliamentary or other public sector pensions ahead of such a pay re-alignment.

Such a structure could also integrate the current arrangements for Office Holders. Revaluation to reflect inflation should be capped as in the private sector to up to 2.5%.

- **Adjustments in the ‘normal retirement age’ should be used as the primary cost containment measure:** after each triennial valuation, the benefits to be accrued for the following 3-years should be referenced to a normal retirement age, which enables the Exchequer contribution to be capped at 20% of payroll.

Over time, this would result in multiple tranches of benefits payable from different retirement ages. On actual retirement, early (or late) retirement adjustments would apply to the individual tranches to provide an equivalent pension at the actual date of retirement.

An alternative approach would be to set the accrual rate for the 3-year period to meet the cost requirements.

The ACA suggests a cautious approach to calculations be taken to reduce the risk of further deficits arising. If this results in future surplus, additional revaluation or pension increases could be granted.

- The 2009 pension tax changes for those on higher incomes will inevitably impact on a considerable number of MPs with income over and above their Parliamentary salaries, rendering contributions into the Parliamentary scheme tax inefficient. **The opportunity could be taken in this review to offer MPs the option of a cash alternative equivalent to the value of the Exchequer contribution.**
- **The proposed changes should apply to the future service of all MPs as well as new entrants from the next General Election:** the ACA believes that it would be divisive and invidious to have different pension arrangements for MPs’ future service. This would also add complexity to the pension arrangement, when simplification needs to be the order of the day across all types of pension arrangements.

ACA Chairman, Keith Barton commented:

“These interim proposals represent about the limit of genuine risk sharing currently available, whilst retaining a DB approach, which we continue to favour given the volatility associated with DC and DB’s greater operating efficiency. We have reiterated in our evidence the ACA’s recommendations on how wider risk sharing, requiring changes in current legislation, which presently restricts its application, could be implemented. Risk sharing reforms could provide additional flexibility in the running of both private and public sector funded schemes, like the Parliamentary scheme.”

The ACA’s evidence also said that it did not think this was an opportune time for the Parliamentary scheme to be integrated into another funded scheme or that the scheme be transformed into an unfunded arrangement ahead of a wider review of all public sector schemes.

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Note to Editors:

About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies. The ACA has over 1700 members working in around 75 firms. ACA Members are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. The ACA forms the largest national grouping of consulting actuaries in the World.

Review of Parliamentary Pensions

The Review Body on Senior Salaries (SSRB) has been requested to make recommendations to the Prime Minister on options for the future of the Parliamentary Contributory Pension Fund (PCPF). A consultation paper requested evidence by 31 July 2009. The PCPF is a contracted-out, defined benefit, final salary, funded pension scheme with an accrual rate of 1/40th if members contribute 10% of pensionable salary towards the cost, or of 1/50th if they contribute 6%. It provides for members to have a normal retirement age of 65.

A copy of the consultation paper is available at:
http://www.ome.uk.com/downloads/SSRB_Review_of_Parliamentary_Contributory_Pension_Fund_Consultation_document.pdf