PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

7 June 1984

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PM

Dear Member

PARLIAMENTARY PENSIONS ETC BILL

As you will know from the Business Statement, the House is due to debate the Parliamentary Pension Etc Bill next week. The proposed legislation is complicated since it mainly takes the form of amendment of existing Acts. You may find it useful therefore to have the attached note of the main provisions as they affect Parliamentary pensions.

I am also arranging for my PPS, Richard Page, to make available notes on clauses to any Member who has any particular problems on the provisions of the Bill.

Yours sincerely

JOHN BIFFEN

MAIN PROVISIONS OF THE PARLIAMENTARY PENSIONS ETC BILL

The accrual rate to be increased from one sixtieth of final salary per year to one fiftieth, as recommended by the Top Salaries Review Body subject to the limits mentioned in para 7 below. This means that a Member will in future be able to earn a full pension after 33 1/3 years service, instead of the present 40. The faster accrual rate to take effect from the date of the Resolution of the House on 19 July 1983.

2. It is proposed that a facility should be made available to allow Members to buy added years at a rate of 40 per cent of full cost in order to increase their pension entitlement to what it would have been if the new accrual rate (and the associated limits on pensions) had applied throughout their service. The detailed arrangements for this will be contained in subordinate legislation.

3. Members' contributions to be increased from the present 6 per cent to 9 per cent in annual steps of 1 per cent beginning on 1 January 1985, to coincide with the agreed increases in pay, reaching 9 per cent on 1 January 1987.

4. Other provisions which implement recommendations of the TSRB affecting Members' pensions are:-

i the abolition of the present four-year qualifying period of service (three years for office-holders) for entitlement to pension;

ii the reduction of the minimum age at which a Member or Minister may apply for an actuarially reduced pension to 50 years; and

iii an increase in the lump sum which may be taken in commutation of part of a pension on retirement to the maximum permitted by the Inland Revenue. The new maxima (which depend on length of service and age at retirement) to be contained in subordinate legislation.

5. As a result of representations received from other groups and individual Members, the Bill also contains the following provisions:-

i relaxation of the qualifying conditions for early retirement at a dissolution on unreduced pension to 20 years service at age 60 or over (backdated to cover Members who retired at the dissolution in May 1983) instead of the present limits of age 62 with 25 years service;

ii early payment of unreduced pensions to those who qualify for a full Member's pension under (i);

iii refunds of contributions to the estates of former Members and office-holders who die before becoming entitled to a pension and without leaving any dependants, where the estates previously would have received nothing;

iv extension of the time limit for acceptance of transfer payments from previous employers' schemes from one year to five years;

v benefits for widowers on the same basis as those paid to widows under the current legislation, removing the current requirement that to qualify for a pension a widower must be over 65 or incapacitated; and relaxation of the rule that obliges the Trustees to restrict payment of pension to a widow (or widower) on cohabitation;

vi the facility to nominate a person to receive the lump sum death benefit immediately on death to be widened to cover any person of the Member's choice. At present Members may only nominate husband or wife;

vii increased flexibility for the Trustees to make grants from the House of Commons Members' Fund: more money will be made available for discretionary grants out of the existing resources of the Fund.

6. The higher basic contribution rate will mean that some Members with added years contracts will find that their total contributions will be more than 15 per cent of salary. The Inland Revenue have agreed that, in the case of existing contracts, contributions of more than 15 per cent may qualify for tax relief. Nevertheless, for those Members who wish to revise their existing added years contracts as a result of the changes introduced by the Bill, it is intended to permit all existing contracts to be renegotiated or terminated within a year of the passing of the Bill.

7. The Bill will ensure that the scheme conforms with the Inland Revenue limit which restricts pension in respect of service before normal retirement age (65 in the Parliamentary scheme) to two-thirds of final salary. Other Inland Revenue limits will be embodied in subordinate legislation. These limits correspond to the rules with which other occupational pension schemes must comply in order to qualify for tax reliefs.