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RESEARCH NOTE 48

## **MP's Salaries: Putting parliamentary pay in context**

Abuse of the Commons' allowances system has been widespread. Potentially fraudulent claims go back years, and MPs on all sides – and of all ranks – are culpable. Wholesale reform of MP's pay, perks and allowances now looks likely, and one key aspect to be addressed will be the level of – and the mechanism for setting – MP's salaries.

Many politicians and journalists maintain that the roots of the current crises lie in inadequate levels of pay for MPs. Allowances for food and redecoration – so this argument goes – were promoted to supplement an apparently insufficient annual salary.

From April 2009 a backbench MP has earned £64,766 per annum (equivalent to £5,397 a month), up from £63,291 in 2007-08. The median gross annual earnings for UK adults in work at April 2008 were £25,100.<sup>1</sup>

In the general context of UK earnings, individual MP's are amongst the top 3 per cent in terms of income.<sup>2</sup> A weekly pre-tax income of £1,217 in 2008 meant that MPs were paid over 3 times the average weekly wage of £388.<sup>3</sup>

A 10 per cent employee pension contribution, income tax and national insurance leaves a backbench MP with a post-tax income of roughly £40,000 a year. While the significant costs of living in London are largely covered by the Additional Cost Allowance or London Supplement, many MPs will still have mortgage commitments on constituency homes, but even after mortgage repayments this is a substantial income, significantly more than their average constituent.

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<sup>1</sup> National Statistics (14 November 2008) 2008 Annual Survey of Hours and Earnings , p.2

<sup>2</sup> Both before and after 'Housing Costs' are factored in; see Department for Work and Pensions (2008), Households Below Average Income 1994/95 – 2007/08, p.12 & Department for Work and Pensions (2008) Family Resources Survey 2007-08, p.35; see also the Institute for Fiscal Studies – <http://www.ifs.org.uk/wheredoyoufitin/>

<sup>3</sup> Median Gross Weekly Earnings for all employee jobs; National Statistics (14 November 2008) 2008 Annual Survey of Hours and Earnings

## MPs with 'additional pay'

There are, at present, 646 MPs in the House of Commons. Only 514 of these were paid the standard 'backbench' wage last year however. Members of the Government – ministers and Secretaries of State – along with the Speaker, senior members of the Opposition, party whips, most Chairmen of Select and Standing Committees, and some other Commons positions receive additional payments.<sup>4</sup>

Prior to 1 June 2009, 131 MPs received additional payments connected to the parliamentary offices they held; 61 Government ministers and Under Secretaries, 26 select committee chairmen, 37 standing committee chairmen and 7 other MPs.<sup>5</sup> The cost of these additional payments in 2007-08 was £3.5 million.

Figure 1: MPs eligible for additional pay, at April 1 2009<sup>6</sup>

Position	MP's Salary, £	Additional Pay, £	Total, £
Prime Minister	64,766	132,923	197,689
Cabinet Minister	64,766	79,754	144,520
Government Chief Whip	64,766	79,754	144,520
Speaker	64,766	79,754	144,520
Lord Chancellor	64,766	79,754	144,520
Leader of the Opposition	64,766	73,617	138,383
Solicitor General	64,766	69,491	134,257
Advocate General	64,766	69,491	134,257
Minister of State	64,766	41,370	106,136
Government Deputy Chief Whip	64,766	41,370	106,136
Opposition Chief Whip	64,766	41,370	106,136
Chairman of Ways and Means	64,766	41,370	106,136
Second Deputy Speaker	64,766	36,360	101,126
Third Deputy Speaker	64,766	36,360	101,126
Parliamentary Under Secretary	64,766	31,401	96,167
Government Whip	64,766	26,624	91,390
Assistant Government Whip	64,766	26,624	91,390
Opposition Deputy Chief Whip	64,766	26,624	91,390
Standing Committee Chair <sup>7</sup>	64,766	14,316	79,082
Select Committee Chair <sup>8</sup>	64,766	14,316	79,082

<sup>4</sup> Senior Salaries Review Body (January 2008), Review of Parliamentary pay, pensions and allowances

<sup>5</sup> Figures obtained from Downing Street and House of Commons websites; <http://www.number10.gov.uk/Page19564> & [http://www.parliament.uk/mpslordsandoffices/mps\\_and\\_lords/selcom.cfm#13](http://www.parliament.uk/mpslordsandoffices/mps_and_lords/selcom.cfm#13)

. Following Gordon Brown's June 2009 reshuffle, the number of ministers, undersecretaries and Committee chairman may have slightly risen or fallen.

<sup>6</sup> House of Commons Fact Sheet M6 (May 2009), Ministerial Salaries, p.3

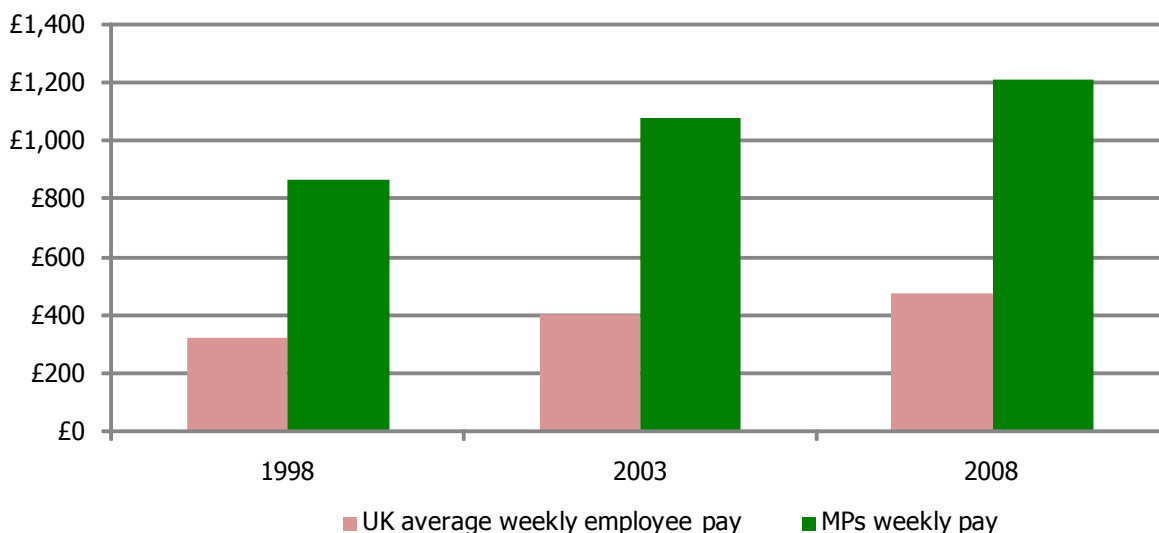
<sup>7</sup> Additional payments to Standing Committee Chair are dependent on length of service

<sup>8</sup> Not all Select Committee Chairs receive additional payments

## Rise in MP's pay

MP's earnings have lagged behind the general rise in wages, but not as significantly as some have implied; between 1998 and 2008 MP's pay rose by 40 per cent, compared to 46 per cent for the average employee wage.<sup>9</sup>

Figure 2: Increase in UK average weekly employee pay and MP's weekly pay (1998-2008)<sup>10</sup>



The one area with which MP's pay has not kept pace is the public sector in general, particularly with the professional positions (senior army officials, judges, NHS staff, senior civil servants) used as comparators by the Senior Salaries Review Body.<sup>11</sup> However, while nurses and engineers require specific qualification and experience, being an MP does not. There are legitimate concerns about the barriers to entry in becoming an MP (such as the cost of getting elected), but these are separate to the issue of pay. While complex and often onerous, the job of a parliamentarian cannot viably be compared to that of a judge or a doctor.

## MP's in an international context

A much more helpful comparison to draw is that between MP's and other representatives abroad. In 2007-08 the British MPs salary of £63,291 a year made them some of the best remunerated representatives in the world. In the EU only Italy, Ireland and Austria paid more (see figure 3 below).<sup>12</sup>

<sup>9</sup> House of Commons Fact Sheet M5 (October 2008), Members' Pay, Pensions and Allowances, p.21; National Statistics, Annual Survey of Hours and Earnings, 1999 & 2008

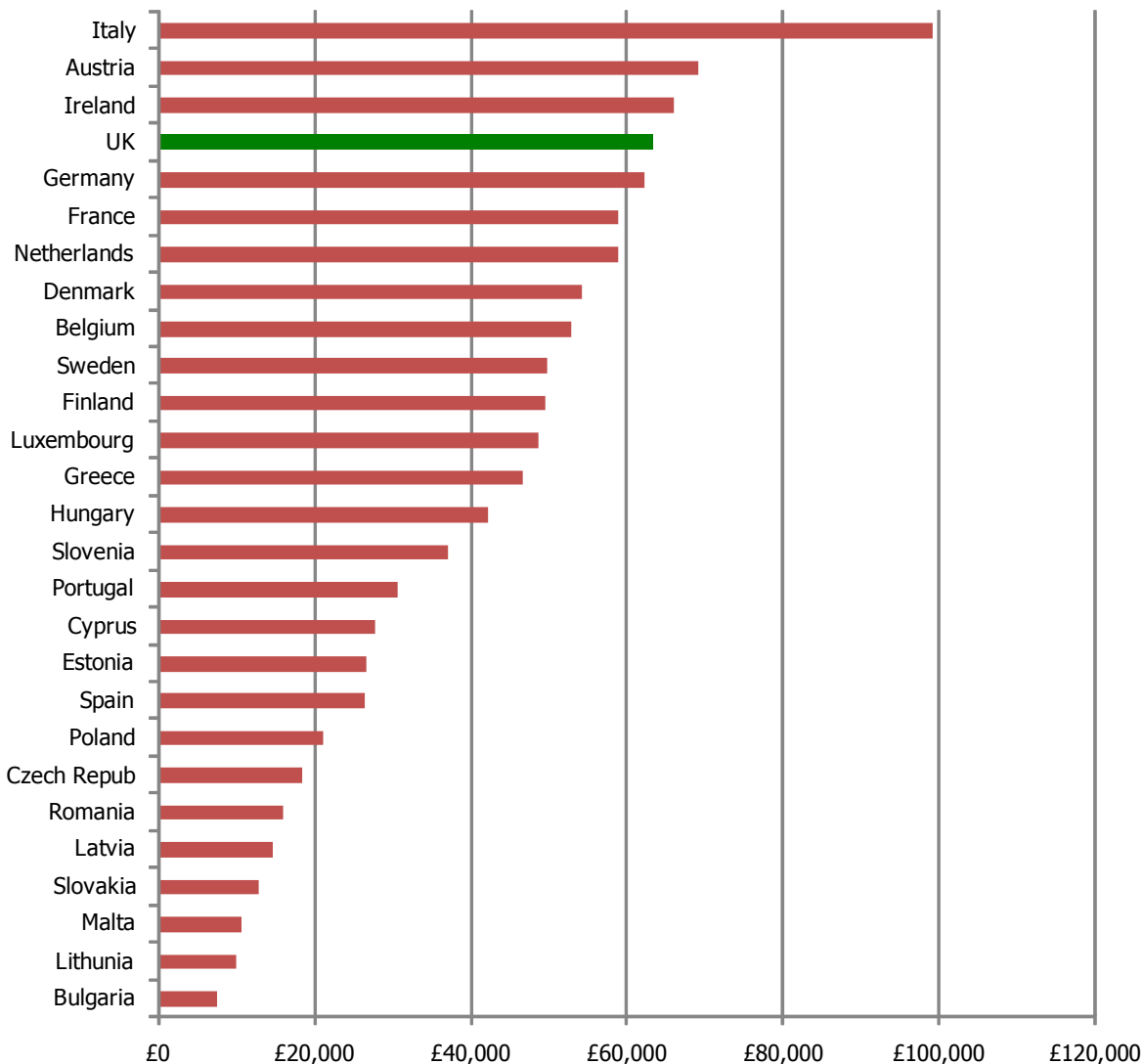
<sup>10</sup> For illustration of these rises in relation to the Retail Price Index, see House of Commons Library Standards Note SN/PC 04585, p27

<sup>11</sup> Senior Salaries Review Body (January 2008), Review of Parliamentary pay, pensions and allowances

<sup>12</sup> Directorate General of the European Parliament (05 January 2009), *Record sheet on the relative pay of members of National Parliaments 2007-08*

Moreover, British MP's represent relatively few constituents. Each member of the US House of Representatives represents around 696,000 constituents, more than seven times the average 94,000 a British MP works for. In Australia, where MP's pay is less and the Parliamentary system similar, each MP represents around 133,000 constituents. In Germany the ratio is one Bundestag member for every 134,000 people.<sup>13</sup>

Figure 3: Comparison of EU Parliamentary salaries (2007-08)<sup>14</sup>



While differences in the constitutional structure of countries (such as between federal and unitary states, unicameral or bicameral legislatures) do make direct comparisons difficult, criticism that they are irrelevant are misplaced. *Government* is certainly more centralised in

<sup>13</sup> House of Commons (23 April 2009), Standard Note: SN/PC/05050 – Members' pay and allowances; arrangements in other parliaments, p.3

<sup>14</sup> Directorate General of the European Parliament (05 January 2009), *Record sheet on the relative pay of members of National Parliaments 2007-08*; €/£ Exchange rate of 0.706, a 2007-08 average.

the UK than it is in most other countries, but the relevance of ordinary members in the national parliament – in terms of policy and budgetary scrutiny – is roughly similar across most rich countries.

## MP's pensions

Just as parliamentary expenses cannot be discussed without reference to pay, pay cannot be considered without reference to MP's pensions. According to the House of Commons:

*"Members of Parliament belong to the parliamentary pension scheme. This is a final salary scheme with a current accrual rate of 1/40<sup>th</sup> or 1/50<sup>th</sup>. It is a contributory pension with the [MP's] contribution rate now set at 10% (40<sup>th</sup> accrual) and 6% (50<sup>th</sup> accrual) of salary."<sup>15</sup>*

The parliamentary scheme is one of the most generous in the public sector, and far more generous than the private sector norm. After twenty years of service (and a contribution of 10 per cent) MP's can expect to receive around £30,000 a year (in today's prices) from their pensions. If an MP is forced to stand down due to ill health, they are entitled to the pension they would have received had they remained in the Commons until they were 65, regardless of age or the length of service prior to departure.<sup>16</sup>

The cost of MP's pensions is split between the taxpayer and Commons members. The amount paid by the taxpayer has risen significantly in recent years; from £9.8 million in 2003 to £12 million in 2008. Over the same period MPs contributions from MP's have gone up from £3.6 million to £4.3 million, an increase of just £700,000.<sup>17</sup>

At present the taxpayer contributes roughly 27 per cent of an MP's annual salary into the Commons pension pot.<sup>18</sup> For an ordinary back bencher (with no additional salary) this is equivalent to an additional £17,486 in annual pay.

Before any expenses, allowances or taxes, the average back bench MP will earn in the region of £82,252 over the coming year (between their salary and the employer contribution to their pension).

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<sup>15</sup> House of Commons Fact Sheet M5 (October 2008), Members' Pay, Pensions and Allowances, p.9

<sup>16</sup> Senior Salaries Review Body (January 2008), Review of Parliamentary pay, pensions and allowances, p.56

<sup>17</sup> BBC News (14 February 2009), "Brown demands MP pensions review" –

[http://news.bbc.co.uk/1/hi/uk\\_politics/7889863.stm](http://news.bbc.co.uk/1/hi/uk_politics/7889863.stm)

<sup>18</sup> Government Actuary Department (31 March 2009), Parliamentary Contributory Pension Fund Valuation as at 1 April 2008

## A Golden Farewell

Any member of the House of Commons who stands down before an election, or loses their seat in said election, is entitled to a 'resettlement grant'. Depending on age and length of service, an MP receives between £32,383 and £64,766, 50 - 100 per cent of their final salary.<sup>19</sup> The first £30,000 of any 'resettlement' payment is tax-free.

Established to help MPs adjust to 'non-parliamentary life', the grant is parliament's alternative to a redundancy payment.<sup>20</sup> According to PriceWaterhouse Coopers, the level of resettlement payment falls roughly in line with practice for senior managers in the private sector.<sup>21</sup> Where it differs is that it is awarded to *any* MP who leaves the Commons at an election, whether they have lost their seat or not.

If an MP chooses to step down voluntarily they remain entitled to the grant. If an MP retires onto the parliamentary pension at 65, or above, the grant also continues to be awarded. Departure from the Commons due to ill-health, at any time of the parliamentary cycle, also guarantees access to a resettlement grant.<sup>22</sup>

To discuss the research, please contact:

**Ben Farrugia**

Policy Analyst, The TaxPayers' Alliance

[ben.farrugia@taxpayersalliance.com](mailto:ben.farrugia@taxpayersalliance.com); 07980 589 905

To arrange broadcast interviews, please contact:

**Mark Wallace**

Campaign Director, The TaxPayers' Alliance

[mark.wallace@taxpayersalliance.com](mailto:mark.wallace@taxpayersalliance.com); 07736 009 548

<sup>19</sup> House of Commons Fact Sheet M5 (October 2008), Members' Pay, Pensions and Allowances, p.20

<sup>20</sup> House of Commons Research Paper 08/31 (March 2008), Parliamentary pay, allowances and pensions, p.52

<sup>21</sup> Senior Salaries Review Body (January 2008), Review of Parliamentary pay, pensions and allowances, p.47

<sup>22</sup> Known as the 'ill-health retirement grant'