Ministry of Justice: Judicial Pensions Scheme

Supplementary Estimate 2023-24: Estimates Memorandum

1 Overview

1.1 Objectives

The Ministry of Justice: Judicial Pensions Scheme (JPS) includes various judicial pension schemes.

The 2022 Scheme

The new reformed pension scheme known as JPS 2022 came into effect on 1 April 2022, replacing all pre-2022 judicial pension schemes mentioned below, under the Public Service Pensions and Judicial Offices Act 2022.

The JPS 2022 is an unfunded, career average scheme for both salaried and fee-paid judges. The pension has an annual accrual rate of 2.5% (or 2.42% for three years for members who opt to pay reduced contributions until 31 March 2025). The scheme does not provide an automatic lump sum. It is, however, possible for members to commute part of their pension into a lump sum at the rate of £12 for every £1 of pension commuted, subject to HMRC limits.

The 1981 Scheme

Salaried judges appointed prior to 31 March 1995 usually participated in a scheme established under the Judicial Pensions Act 1981. Under the 1981 Act maximum benefits accrued over either 15 or 20 years. The qualifying conditions for pension benefits varied according to age and length of service requirements. The lump sum is twice the annual pension.

The 1993 Scheme

Salaried Judges appointed between 31 March 1995 and 31 March 2015 usually participated in a scheme established under the Judicial Pensions & Retirement Act 1993 (JUPRA). Both the 1981 and 1993 schemes are unfunded, final salary occupational pension schemes.

The 1993 Act provides a lump sum of 2.25 times the member’s annual pension. The annual pension is calculated at 1/40th of the highest of the last three years of pensionable pay, up to a level reflecting the former HMRC earnings cap, multiplied by the number of years of reckonable service, up to a maximum of 20. Pension benefits are payable from age 65, subject to having completed five years’ pensionable service.

A top up scheme operated to provide pension benefits for 1993 Act members in respect of salaries above the HMRC earnings cap.

The 2015 Scheme

The JPS 2015 was established under the Judicial Pensions Regulations 2015 and came into effect on 1 April 2015. It applied to members of the 1981 and 1993 schemes without transitional protection until 31 March 2022. The JPS 2015 was an unfunded career average scheme for both salaried and fee-paid judges.

The pension has an annual accrual rate of 2.32%. The scheme does not provide an automatic lump sum. It is, however, possible for members to commute part of their pension into a lump sum at the rate of £12 for every £1 of pension commuted, subject to HMRC limits.

Fee-Paid Judicial Pension Scheme 2017

The Fee-Paid Judicial Pension Scheme (FPJPS) was established under the Judicial Pensions (Fee-Paid Judges) Regulations 2017 and came into effect on 1 April 2017 until 31 March 2022.

FPJPS was an unfunded, final salary occupational pension scheme that mirrored the benefits of the JUPRA Scheme as far as possible. FPJPS included historic pension entitlement, where appropriate.

The pension has an accrual rate of 2.5% of pensionable earnings, subject to a 20-year restriction on the number of reckonable full-time equivalent years' worth of service. FPJPS pays an automatic lump sum on retirement at the rate of 2.25 times the member's initial annual pension.

McCloud remedy – options exercise

Members of the 1981, 1993 and FPJPS schemes with full transitional protection under Schedule 2 of the Judicial Pensions Regulations 2015 remained in their current scheme until 31 March 2022. Those with tapering transitional protection under these regulations had a choice of moving to JPS 2015 on 1 April 2015 or at the end of their taper period, until this process was stopped on 30 September 2019, following the judgment in McCloud v the Ministry of Justice (MoJ).

An options exercise for judges in scope of the McCloud remedy commenced in October 2023. This allows them to make a retrospective choice of pension scheme membership for the period from 1 April 2015 to 31 March 2022.

This estimate allows for additional pension due as a result of the options exercise, along with compensation for other financial and tax losses within allowable parameters.

1.2 Spending controls

The Ministry of Justice: Judicial Pensions Scheme budgets are not subject to pre-set departmental Expenditure Limit (DEL) control totals; they sit within a category of spending known as Resource Annually Managed Expenditure (AME), which can be revised and reforecast regularly. This is because net expenditure and cash payments are largely outside the control of the scheme administrators on a day-to-day basis, instead being affected by factors such as membership numbers, salary levels, mortality rates, the age profile of members, and annual pension increases.

The **Resource AME** sought under the Ministry of Justice: Judicial Pensions Scheme Estimate is essentially the amount by which liabilities under the pension scheme are estimated to increase during the year, less the contributions paid by employers and employees towards those liabilities.

The **net cash requirement** represents the estimated net cash required for the year to cover payments of pensions, after taking account of estimated contributions and transfer values paid in by employees and employers. A negative value means that more is forecast to be received than paid in year.

1.3 Comparison of spending totals sought

The table below shows how the totals sought for the Judicial Pensions Scheme compare with the Main Estimate 2023-24 and the final outturn for 2022-23.

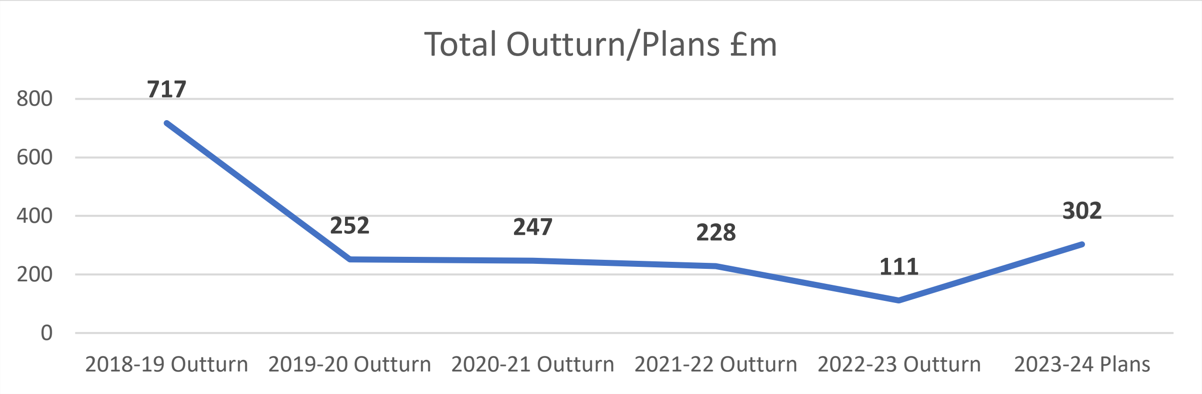
Amounts sought in Supplementary Estimate 2023-24			Changes from Main Estimate 2023-24		Comparison to Final Outturn 2022-23	
		£m	£m	%	£m	%
Resource AME	Voted	210.4	21.5	11%	266.3	-477%
Resource AME	Non-voted	92.0	-3.3	-3%	-75.0	-45%
Resource AME	Total	302.4	18.2	6%	191.3	172%

1.4 Key drivers of spending changes since original budget

Details of the changes in spending are provided at section 2.1.

1.5 Spending trends

The chart below shows overall spending trends for the last six years, using outturn figures for the last five years and the plans presented in Estimates for 2023-24. As AME is reforecast on an annual basis, there are no plans beyond the current Estimate.



The high figure in 2018-19 was due to provisions in relation to legal cases.

1.6 Administration costs and efficiency plans

Under the Judicial Pensions Regulations 2015 the Lord Chancellor is the JPS Scheme Manager, with functions in relation to administration exercised by the MoJ Director of Financial Management and Control.

Since 2015, the administration of pension awards and pension payrolls has been outsourced to Punter Southall Limited, now XPS Administration Limited.

The costs of administration of the scheme are borne by the Ministry of Justice, funded by a recharge to Ministry of Justice: Judicial Pensions Scheme though subhead A, and are forecast to amount to £1.0 million.

2. Spending detail

2.1 Explanations of changes in spending

Resource AME

The table below shows how the Scheme's 2023-24 Supplementary Estimate Resource AME spending plans compare with the 2023-24 Main Estimate.

Estimate Subhead	Description	Detail	Supplementary Estimate 2023-24	Main Estimate 2023-24	Change from Main Estimate 2023-24	
			£m	£m	£m	%
A	Expenditure	Current service costs (Voted)	117.0	116.4	0.6	0%
B		Current service costs (Non-voted)	92.0	95.3	-3.3	-3%
A		Administration costs	1.0	1.0	0.0	0%
A		Interest on scheme liabilities	190.4	198.5	-8.1	-4%
A		McCloud compensation payments	26.0	0.0	26.0	100%
A		Provisions arising from legal cases & PSC	100.0	100.0	0.0	0%
	Subtotal		526.4	511.2	15.2	3%
A	Income	Contributions	-224.0	-227.0	3.0	-1%
	Net total		**302.4**	**284.2**	**18.2**	**6%**

Changes that are more than 10% and more than £10 million are explained below.

- McCloud compensation payments

  This Supplementary Estimate includes estimated compensation payments of £26m for tax and other financial losses, following the McCloud remedy options exercise conducted this year.

  Note: the additional pensions payable as part of the options exercise (£25m) are budget-neutral, being an increase in provisions offset directly by utilisation of that provision.

2.3 Estimated scheme liabilities

The total scheme liabilities, as reported in the Judicial Pensions Scheme Annual Report and Accounts 2022-23 (JPS ARA) were £4.58 billion. This is a significant reduction on the liability of £6.83 billion reported for 2021-22, mainly due to an actuarial gain of £2.40 billion following changes in HM Treasury’s discount rate which feeds into the financial assumptions. A link to the JPS ARA is provided below:

[Judicial Pensions Scheme Annual Report and Accounts 2022 to 2023 - GOV.UK (www.gov.uk)]

The following table gives a breakdown of scheme membership as at 31 March 2023.

Scheme members	JPS 2022 (salaried & fee-paid)	FPJPS 2017 (fee-paid)	JPS 2015 (salaried & fee-paid)	1981 and 1993 (salaried)	Total
Active members	7,555	0	0	0	7,555
Active members linked to legacy schemes	0	3,456	5,564	1,049	10,069
Deferred members	40	284	218	48	590
Pensioner	109	2,226	88	2,875	5,298
Total	**7,704**	**5,966**	**5,870**	**3,972**	**23,512**

3. Accounting Officer Approval

This memorandum has been prepared according to the requirements and guidance set out by the House of Commons Scrutiny Unit, available on the Scrutiny Unit website.

The information in this Estimates Memorandum has been approved by me as Departmental Accounting Officer.

Antonia Romeo

Principal Accounting Officer

Ministry of Justice: Judicial Pensions Scheme

27 February 2024