EXPLANATORY MEMORANDUM TO

THE OCCUPATIONAL PENSIONS (REVALUATION) ORDER 2014

2014 No. 3078

1. This explanatory memorandum has been prepared by the Department for Work and Pensions and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

This instrument sets out the percentages by which preserved pensions in final salary occupational pension schemes are to be revalued.

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

None.

4. Legislative Context

The Secretary of State is required by law to lay an Order each year which sets out the minimum required level of revaluation for pension rights (excluding guaranteed minimum pensions) of people who were early leavers from final salary occupational pension schemes on or after 1 January 1986 where the accrued rights have been left in the scheme.

5. Territorial Extent and Application

This instrument applies to Great Britain. The Department for Social Development in Northern Ireland will be producing its own legislation replicating this Order for Northern Ireland.

6. European Convention on Human Rights

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

7. Policy background

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

7.1 Where a person leaves a final salary pension scheme before normal pension age, with a preserved pension, that pension is likely to have lost value due to inflation by the time it is put into payment. The revaluation provisions, introduced for those who left schemes after 1 January 1986, are designed to provide a measure of protection against inflation where there is at least one full year between the member leaving the scheme and reaching its normal pension age.

7.2 This Order sets out the revaluation required (for that part of a pension in excess of the guaranteed minimum pension rights) for people who will reach their scheme's normal pension age in 2015.

7.3 Pensions based on pensionable service before 6 April 2009, must be increased at least in line with the increase in the general level of prices over the whole period of deferment or 5 per cent compound per annum whichever is the lower. The Pensions Act 2008 reduced the 5 per cent 'cap' to 2.5 per cent compound per annum for pension based on service from 6 April 2009, though schemes may continue to use the higher cap under scheme rules.

7.4 The primary legislation requires the Secretary of State to form a judgment of the general increase in prices over the relevant inflation reference periods (ending on the 30 September) in making the Order. Since 2010, the Secretary of State has considered the Consumer Prices Index (CPI) to be the most appropriate measure of inflation and CPI has again been used for the latest 12 month inflation reference period. The judgment of inflation already made for the purposes of annual orders up to and including the 2009 Order, which were based on the Retail Prices Index (RPI) measure of inflation, will not change however. This means that the revaluation percentages for periods in the last five years are based exclusively on CPI whereas the percentages for longer periods are based on RPI for all but the last five years of the relevant period.

7.5 People who left pensionable employment on or after 1 January 1991 have all preserved rights revalued, including pre-1986 service. Similarly those people with all their pensionable service falling on or after 1 January 1985 will have all their preserved rights revalued. People who left between 1 January 1986 and 31 December 1990 have a right to a revaluation only of the rights accrued from pensionable service on or after 1 January 1985.

7.6 The following example shows how revaluation works: A person leaves an employment in April 1997. When he leaves, the pension rights he has accrued in his occupational pension scheme are preserved within the scheme. At the time he leaves in 1997 the value of his pension is £30 per week. In May 2015, the person reaches the normal pension age of his former scheme and is therefore entitled to a pension. Before the pension is put into payment, the scheme will revalue it using the appropriate percentage from the Order. For a person whose pension is all subject to revaluation at 5 per cent and has been deferred for 18 years, the appropriate percentage is 61.4 per cent. (No revaluation applies for part years.) The original amount of the pension, £30, will therefore be uplifted by this percentage to give a new pension entitlement of £48.42.

7.7 Legislation also sets out the minimum amount by which defined benefit occupational pensions in payment have to be increased each year. Pensions accrued between 6 April 1997 and 5 April 2005, must be increased by the increase in the general level of prices capped at 5 per cent and pensions accrued after 6 April 2005, must be increased by the increase in the general level of prices capped at 2.5 per cent. The figures to be used are those given for the one year revaluation period in the annual Revaluation Order.

7.8 The CPI figure for the year to 30 September 2014 was 1.2 per cent.

- *Consolidation*

7.9 The Order applies to the 12 months commencing 1 January 2015. It will be followed by a new Order which will apply to the next calendar year. There is therefore no need for consolidation.

8. Consultation outcome

As explained above, primary legislation requires the Secretary of State to make an Order each year, coming into force on 1 January, based on his judgment of the increase in the general level of prices up to the immediately preceding 30 September. As there is no scope for consultation to affect the outcome of this annual Order, no consultation is undertaken. The Order does not amend other legislation.

9. Guidance

All occupational pension schemes have procedures in place to implement the revaluation increases. The latest revaluation Order, coming into effect from 1 January each year, indicates which figures should be used for the calculations. No guidance is therefore necessary.

10. Impact

10.1 There is no new impact on business and civil society.

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 Order applies to all final salary occupational pension schemes but has a negligible administrative impact on them.

11.2 It is not possible to minimise the impact of the requirements on firms employing up to 20 people without an adverse effect on scheme members.

12. Monitoring & review

12.1 This Order will be replaced in 12 months' time, as the primary legislation requires, by a new Order reflecting updated inflation figures.

13. Contact

James Newman at the Department for Work and Pensions Tel: 020 7449 7229 or email: james.newman@dwp.gsi.gov.uk can answer any queries regarding the instrument.