
EXPLANATORY NOTE

(This note is not part of the Order)

This Order relates to members of pension schemes which are contracted-out of the state additional pension. It is made as a consequence of a review by the Secretary of State following a report by the Government Actuary relating to the cost of providing benefits equivalent in value to those given up by members of pension schemes which are contracted-out.

In accordance with sections 42, 42B and 45A of the Pension Schemes Act 1993 (c. 48) (“the 1993 Act”) and section 181(9A) of the Pension Schemes (Northern Ireland) Act 1993 (c. 49) (“the Northern Ireland Act”) a copy of a report by the Government Actuary has been laid before Parliament with a draft of this Order together with a copy of a report by the Secretary of State. The Government Actuary reported on the current reductions in Class 1 contributions of members of salary related pension schemes. In relation to members of money purchase contracted-out schemes and appropriate personal pension schemes, he reported on the percentages required for the appropriate age-related and appropriate flat-rate percentages in order to reflect the cost of providing benefits of actuarial value equivalent to those forgone by such members. In relation to all schemes he also reported on any changes in the factors since his last report, which affect the cost of providing benefits of actuarial value equivalent to those forgone by members of such schemes.

Article 2 alters, with effect from 6th April 2007, the percentage to be deducted from secondary Class 1 contributions in respect of members of salary related contracted-out pension schemes (see section 41 of the 1993 Act). The percentage specified is 3.7%. The deduction for primary Class 1 contributions remains unchanged.

Article 3 and Schedule 1 specify for each of the tax years 2007-08 to 2011-12 the appropriate flat-rate percentage and the appropriate age-related percentage for members of money purchase contracted-out pension schemes (see section 42A of the 1993 Act). The appropriate flat-rate percentage is 1.6% for primary Class 1 contributions and 1.4% for secondary Class 1 contributions.

Article 4 and Schedules 2 to 6 specify for each of the tax years 2007-08 to 2011-12 the appropriate age-related percentages of earnings payable as minimum contributions in respect of members of appropriate personal pension schemes (see section 45 of the 1993 Act).

Article 5 makes the same provision for Northern Ireland as made in article 2 in relation to the percentage to be deducted from secondary Class 1 contributions in respect of members of salary related contracted-out pension schemes (see also section 37 of the Northern Ireland Act).

Article 6 makes the same provision for Northern Ireland as made in article 3 in relation to the appropriate flat-rate percentage and the appropriate age-related percentage of earnings of members of money purchase contracted-out pension schemes (see also section 38A of the Northern Ireland Act).

Article 7 makes the same provision for Northern Ireland as made in article 4 in relation to the appropriate age-related percentages of earnings payable as minimum contributions in respect of members of appropriate personal pension schemes (see also section 41 of the Northern Ireland Act).

A full Regulatory Impact Assessment has not been produced for this instrument as it has no new impact on the costs of business, charities or the voluntary sector.

The Government Actuary's and the Secretary of State's reports are contained in a Command Paper published by The Stationery Office Limited (Cm. 6758).

Changes to legislation:

There are currently no known outstanding effects for the The Social Security (Reduced Rates of Class 1 Contributions, Rebates and Minimum Contributions) Order 2006.