

## EXPLANATORY MEMORANDUM TO

### THE SOCIAL SECURITY REVALUATION OF EARNINGS FACTORS ORDER 2016

2016 No. 205

#### **1. Introduction**

- 1.1 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**

- 2.1 The Social Security Revaluation of Earnings Factors Order is made each year to revalue historic earnings factors in line with the movement in average earnings.

#### **3. Matters of special interest to Parliament**

##### *Matters of special interest to the Joint Committee on Statutory Instruments*

- 3.1 None

##### *Other matters of interest to the House of Commons*

- 3.2 As this instrument is subject to negative resolution procedure and has not been prayed against, consideration as to whether there are other matters of interest to the House of Commons does not arise at this stage.

#### **4. Legislative Context**

- 4.1 When entitlement to an additional State Pension (State Earnings Related (SERPS) /State Second Pension) is calculated the earnings on which it is based need to be revalued in line with earnings growth. The introduction of the new State pension from 6 April 2016 means there is no new entitlement to an additional State Pension or further accrual after 5 April 2016 but inherited additional State Pension will still be payable. The percentages set out in the Revaluation Order will be used for revaluing earnings accrued in the tax year 2015/2016 and earlier tax years in the calculation of an inheritable additional State Pension.

#### **5. Extent and Territorial Application**

- 5.1 The extent of this instrument is Great Britain.  
5.2 The territorial application of this instrument is Great Britain.  
5.3 Equivalent provision in relation to Northern Ireland will be made by statutory rule.

#### **6. European Convention on Human Rights**

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

## 7. Policy background

### *What is being done and why*

- 7.1 Earnings factors are the formulae for converting earnings-related National Insurance contributions into entitlement to earnings-related benefits (and inherited earnings-related benefits) and for calculating earnings-related entitlement over a person's working life. They are derived from earnings upon which primary Class 1 contributions have been paid or treated as paid, and from Class 2 and Class 3 contributions paid<sup>1</sup>. For years from 2002/3 to 2015/16 additional pension accrues on primary Class 1 contributions only. Carers and disabled people entitled to certain benefits are treated as having an earnings factor for these purposes.
- 7.2 The earnings factors derived for each year since the additional State Pension was introduced in 1978/79 are revalued annually in line with the movement in average earnings. This annual revaluation exercise allows earnings factors derived from historic earnings to be restated at current values as part of the calculation of an additional State Pension under both the State Earnings Related Pension Scheme (SERPS) and the State Second Pension. Earnings factors are also used by scheme administrators in contracted out salary-related pension schemes to calculate the amount of Guaranteed Minimum Pension (GMP) payable to members reaching GMP pensionable age (60 for women and 65 for men).
- 7.3 Whilst the introduction of the new State Pension from 6 April 2016 ends additional State Pension accruals the Revaluation Order is still needed for the calculation of inherited additional State Pension which is payable to a widow/widower or surviving civil partner who reached state pension age prior to 6 April 2016 and who can inherit additional State Pension from their spouse or civil partner if they were in the new State Pension.
- 7.4 Revaluations have been calculated by reference to the change in earnings over the period of 12 months up to the end of September. This allows sufficient time for the resulting Order to be made before the beginning of the tax year in which it is to apply.
- 7.5 During the period between September 2014 and September 2015 the Office for National Statistics' Average Weekly Earnings statistic September year-on-year change (non-seasonally adjusted, including bonuses)<sup>2</sup> showed that average earnings in Great Britain increased by 2%.
- 7.6 The Revaluation Order therefore provides for earnings factors for 2015/16 to be increased and for earnings factors for earlier tax years to also be increased by percentages which reflect, in addition, the increases provided for by previous Orders. The Order also makes provision for the rounding of earnings factors to the nearest whole pound for the purpose of calculating the additional pension element of any long-term benefit.

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<sup>1</sup> Class 1 National Insurance contributions are paid by employed earners. Class 2 are paid by the self-employed. Class 3 National Insurance contributions are voluntary contributions to make up gaps in a person's National Insurance contributions record.

<sup>2</sup> Average weekly earnings by sector at <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/december-2015/table-earn02.xls>

### ***Consolidation***

- 7.7 As this instrument does not amend other instruments the question of consolidation does not arise.

### **8. Consultation outcome**

- 8.1 This is a technical Order to ensure earnings factors are restated at current values. Consultation on the Order is not appropriate.

### **9. Guidance**

- 9.1 Information and guidance on the new State Pension is available in leaflets published by the Department and on [www.gov.uk](http://www.gov.uk). Factsheets are also available on the gov.uk website which explain how the changes will effect additional State Pension and Guaranteed Minimum Pensions (GMP) payments.

### **10. Impact**

- 10.1 There is no impact on business, charities or voluntary bodies.  
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 does not apply any additional burdens on small businesses.

### **12. Monitoring & review**

- 12.1 The position is subject to review each tax year.

### **13. Contact**

- 13.1 Angela Relf at the Department for Work and Pensions Telephone:020 7449 5997 or email:[angela.relf@dwp.gsi.gov.uk](mailto:angela.relf@dwp.gsi.gov.uk) can answer any queries regarding the instrument.