EXPLANATORY MEMORANDUM TO

THE GUARANTEED MINIMUM PENSIONS INCREASE ORDER 2007

2007 No.

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. Description

2.1 The Order will affect schemes which provide defined benefit (ie salary related) occupational pensions that were contracted out of the State Earnings Related Pension Scheme. Such schemes were required to pay a guaranteed minimum pension to members on reaching state pension age. This requirement was abolished from April 1997, but rights accrued to that date are preserved.

2.2 The Order specifies 3 per cent. as the amount by which the guaranteed minimum pension element of an individual's occupational pension entitlement must be increased, with effect from 6 April 2007.

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

3.1 None.

4. Legislative Background

4.1 The Order fulfils the statutory duty of the Secretary of State under section 109(1) of the Pension Schemes Act 1993 ("the Act") to review the general level of prices in Great Britain for the period of 12 months commencing at the end of the period last reviewed. Where that level has increased at the end of the period under review, the Secretary of State is required, under section 109(2) of the Act, to lay a draft Order before Parliament specifying a percentage by which there is to be an increase of the rate of that part of the guaranteed minimum pension which is attributable to earnings factors for the tax years in the relevant period (i.e. the tax years 1988-89 to 1996-97).

4.2 In accordance with section 109(3) of the Act, the level of inflation proofing is limited to the increase in the Retail Prices Index (RPI) or 3 per cent, whichever is less. The RPI for the appropriate review period (i.e. the 12 months commencing on 1 October 2005 and ending on 30 September 2006) was 3.6 per cent. The increase in the guaranteed minimum pension is, therefore, 3 per cent.

5. Territorial Extent and Application

5.1 This instrument applies to Great Britain.

6. European Convention on Human Rights

The Minister of State for Pensions Reform, James Purnell, has made the following statement regarding Human Rights:

In my view the provisions of the Guaranteed Minimum Pensions Increase Order 2007 are compatible with the Convention rights.

7. Policy Background

7.1 The Order fulfils the Secretary of State's statutory duty, as above, to provide for annual increases in the guaranteed minimum pension.

8. Impact

8.1 A Regulatory Impact Assessment has not been prepared for this instrument as it imposes no new costs on business, charities or voluntary bodies.

8.2 This instrument imposes no new costs on the public sector.

9. Contact

Tim Found at the Department for Work and Pensions (Tel: 020 7712 2409 or e-mail: tim.found@dwp.gsi.gov.uk) can answer any queries regarding the instrument.