EXPLANATORY MEMORANDUM TO

THE GUARANTEED MINIMUM PENSIONS INCREASE ORDER (NORTHERN IRELAND) 2014

S.R. 2014 No. 75

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Social Development to accompany the Statutory Rule (details above) which is laid before the Northern Ireland Assembly.

1.2 The Statutory Rule is made under section 105 of the Pension Schemes (Northern Ireland) Act 1993 and is subject to the negative resolution procedure before the Assembly.

2. Purpose

2.1 This Order specifies the percentage by which the guaranteed minimum pension element of an individual's occupational pension entitlement (a person could accrue a guaranteed minimum pension in a contracted-out occupational pension scheme between 1978 and 1997) is increased with effect from 6th April 2014.

3. Background

3.1 Before April 1997, a defined benefit occupational pension scheme contracted out of the State Earnings Related Scheme had to provide a guaranteed minimum pension (GMP). Entitlement to a GMP gives a member of a contracted-out occupational pension scheme the right to receive a defined minimum amount of earnings-related pension from the scheme. The amount of GMP on retirement equates to the pension to which the member would have been entitled had he remained in the State Earnings Related Scheme. This is the minimum that the scheme must provide and most scheme members can expect pensions in excess of the GMP. Once in payment GMPs are reviewed annually to ensure that their value is not eroded by inflation.

3.2 Under section 109 of the Pension Schemes Act 1993, the Secretary of State for Work and Pensions is required in each tax year to review the general level of prices in the period of 12 months since the last review. If he concludes that prices have increased at the end of the period under review, he is required to make an order specifying the percentage by which that part of the GMP attributable to earnings factors between the tax years 1988-1989 and 1996-1997 is to be increased. The order requires contracted-out occupational pension schemes to protect GMPs against inflation up to a maximum of 3 per cent. During the latest

review period the general level of prices increased by 2·7 per cent. The Secretary of State for Work and Pensions therefore made an order under section 109(4) of the Pension Schemes Act 1993 prescribing an increase of 2·7 per cent.

3.3 Whenever the Secretary of State for Work and Pensions makes such an order, the Department is empowered to make a corresponding order. The Department has no power to set different percentages for Northern Ireland.

3.4 Schemes are not required to pay a GMP in respect of service after 6th April 1997. Instead schemes must meet a statutory standard. Under Article 51 of the Pensions (Northern Ireland) Order 1995, the scheme is required annually to uprate pensions attributable to service after 6th April 1997 by the lesser of the increase in the Consumer Prices Index or the applicable statutory percentage (5 per cent for service up to 6th April 2005 and 2·5 per cent for service after that date).

4. Consultation

4.1 There is no requirement to consult on this Order.

5. Equality Impact

5.1 In accordance with its duty under section 75 of the Northern Ireland Act 1998, the Department has conducted a screening exercise on the legislative proposals for this Order. As the proposals merely discharge the Department's statutory duty to increase the guaranteed minimum pension percentage, the Department has concluded that those proposals would not have significant implications for equality of opportunity. In light of this, the Department considers that an Equality Impact Assessment is not necessary.

6. Regulatory Impact

6.1 The Order does not require a Regulatory Impact Assessment as it does not impose any new costs on business, charities or voluntary bodies.

7. Financial Implications

7.1 The Order makes only provision corresponding to provision made by the Secretary of State for Work and Pensions in Great Britain as part of the annual uprating package. The implementation of the package is expected to increase the Department's annual managed expenditure by approximately £101m.

8. Section 24 of the Northern Ireland Act 1998

8.1 The Department has considered section 24 of the Northern Ireland Act 1998 and is satisfied that this Order –

(a) is not incompatible with any of the Convention rights,

(b) is not incompatible with Community law,

(c) does not discriminate against a person or class of person on the ground of religious belief or political opinion, and

(d) does not modify an enactment in breach of section 7 of the Northern Ireland Act 1998.

9. EU Implications

9.1 Not applicable.

10. Parity or Replicatory Measure

10.1 The corresponding Great Britain Order is the Guaranteed Minimum Pensions Increase Order 2014 (S.I. 2014/515) which comes into force on 6th April 2014. Parity of timing and substance is an integral part of the maintenance of single systems of social security, child support and pensions provided for in section 87 of the Northern Ireland Act 1998.