EXPLANATORY MEMORANDUM TO

THE OCCUPATIONAL PENSIONS (REVALUATION) ORDER 2006

2006 No. 3086

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 This Order sets out the percentage by which preserved pensions are revalued in occupational pension schemes.

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

3.1 None.

4. Legislative Background

4.1 The Department is required by law to lay an order each year which sets out the revaluation of pension rights (excluding Guaranteed Minimum Pensions) of people who were early leavers from salary related occupational pension schemes on or after 1 January 1986 but have left accrued rights in the scheme.

5. Territorial Extent and Application

5.1 This instrument applies to Great Britain.

6. European Convention on Human Rights

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

7. Policy Background

7.1 Sections 83-86 of, and Schedule 3 to, the Pension Schemes Act 1993 provide for preserved pension rights to be revalued. The revaluation provisions, first introduced in the Social Security Act 1985, are designed to protect early leavers from the effects of inflation. The requirement applies to rights of members who leave pensionable service on or after 1 January 1986 where there is at least a year between the date of leaving and the scheme's normal pension age.

7.2 The Order sets out the revaluation required (over and above Guaranteed Minimum Pension rights) for people who will reach their scheme's normal pension age in 2007.

7.3 An example of revaluation is as follows. A person leaves an employment in 1995. When he leaves, his pension is preserved within the pension scheme. At the time he leaves in 1995 the value of the pension is £30 per week. In 2007, the person reaches the normal pension age of his former scheme and is therefore entitled to a pension from that scheme. Before the pension is put into payment, the scheme will revalue it using the appropriate percentage from the Order. For a person who left employment in 1995 the appropriate percentage is 38.2%. The original amount of the pension, £30, will therefore be uplifted by this percentage to give a new amount of £41.46 a week.

7.4 The increase must be at least in line with the full Retail Prices Index increase over the whole period of deferment or 5% compound per annum, whichever is the lower.

7.5 People who left pensionable employment on or after 1 January 1991 have all deferred rights revalued, including pre-1986 service. People who left between 1 January 1986 and 31 December 1990 have a right to a revaluation of only the rights accrued from pensionable service after 1 January 1985. (The legislation effective from 1 January 1986 was based on a complete year's service from 1 January 1985. The "revaluation period" in the Table in the Order refers to the dates between which the member retires.) The phased nature of these arrangements was to allow schemes to plan ahead in terms of funding the revaluation requirement.

7.6 The Order should not be contentious. It has negligible impact on business costs because the scheme actuary will have built in provision for revaluation when working out a scheme's funding requirement.

7.7 There is no requirement in sections 182 to 186 of the Pension Schemes Act 1993 to consult on the Order. It does not amend other legislation.

8. Impact

8.1 A Regulatory Impact Assessment has not been prepared for this instrument as it has negligible impact on business, charities or voluntary bodies.

8.2 There is no impact on the public sector.

9. Contact

Andy Carter at the Department for Work and Pensions Tel: 020-7962-8969 or e-mail: andy.carter@dwp.gsi.gov.uk can answer any queries regarding the instrument.