EXPLANATORY MEMORANDUM TO

THE OCCUPATIONAL PENSIONS (REVALUATION) ORDER 2025

2025 No. 1211

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 His Majesty.

2. Declaration

2.1 Torsten Bell, Minister for Pensions at the Department for Work and Pensions confirms that this Explanatory Memorandum meets the required standard.

2.2 Sam Hainsworth, Deputy Director for Defined Benefit Pensions Policy, at the Department for Work and Pensions confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Anila Naseem at the Department for Work and Pensions can be contacted by email at the following address with any queries regarding the instrument: anila.naseem@dwp.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This Order sets the minimum revaluation rate for defined benefit final salary occupational pensions (excluding Guaranteed Minimum Pensions) for people who leave their pension schemes before reaching retirement age.

4.2 The Order also sets the minimum annual increase for pensions in payment, which were built up in private sector occupational defined benefit schemes.

Where does the legislation extend to, and apply?

4.3 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is England, Scotland and Wales.

4.4 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England, Scotland and Wales.

4.5 The Department for Communities in Northern Ireland will be producing its own legislation replicating the effect of this Order for Northern Ireland.

5. Policy Context

What is being done and why?

5.1 Revaluation was introduced to help maintain the value of pensions for people who leave final salary occupational pension schemes before retirement, whether by changing jobs or opting out. This applies to individuals who:

- Become ‘deferred members’ (i.e. they were members of a pension scheme for at least two years, or less if specified in scheme rules),

- Left the pension scheme on or after 1 January 1986 and
- Have at least one full year between them leaving the pension scheme and reaching normal pension age.

5.2 The pension rights retained in the scheme are referred to as a 'preserved pension'.

- Preserved pensions built up before 6 April 2009 must be increased at least in line with inflation, but subject to a cap of 5 per cent.
- Pensions built up from 6 April 2009 must be increased at least in line with inflation, but subject up to a lower cap of 2.5 per cent.

5.3 Although, a lower cap was introduced in legislation, many schemes chose to retain the 5 per cent cap. This Order provides for both rates.

Inflation measure

5.4 The Secretary of State is required to assess the general increase in prices over the relevant reference period ending 30 September. Since 2010, the Secretary of State has considered the Consumer Price Index (CPI) to be the appropriate measure of inflation. Prior to this, the Retail Prices Index (RPI) was used as the measure of inflation up to and including the 2009 Order. As a result, the revaluation percentages for the last 16 years are based on CPI, while earlier years use RPI.

5.5 Pensionable service refers to the period of service in a defined benefit scheme used to calculate a person's pension or other benefits. Legislation requires individuals who left pensionable service on or after 1 January 1991 to have all preserved rights revalued, including pre-1986 service. Similarly, individuals who left pensionable service between 1 January 1986 and 31 December 1990, where all their pensionable service falls on or after 1 January 1985 will have all their preserved rights revalued. Individuals with pre-1985 service who left pensionable service between 1 January 1986 and 31 December 1990 are entitled to revaluation only for pensions built up from service on or after 1 January 1985.

5.6 This Order sets the revaluation required for the portion of the pension above the Guaranteed Minimum Pension for people who will reach their scheme's normal pension age in 2026. It includes a table showing the cumulative revaluation rates for each year, under the 5 per cent and 2.5 per cent caps.

5.7 An example of revaluation is where someone leaves employment that is relevant to the pension scheme in April 1997. In 1997, the value of their pension was £30 per week. They reach the scheme's normal pension age in May 2026, and at this point becomes entitled to a pension. For someone whose pension allows for the higher revaluation rate and has been deferred for 29 years (1997-2026), the appropriate percentage is 124.4 per cent, which means £30 would be uplifted to £67.32 per week. No revaluation applies to part years.

Indexation and link to revaluation

5.8 Indexation was introduced to help protect the value of defined benefit pensions already in payment against inflation. While indexation is not explicitly mentioned in the Order, it is linked to the revaluation figure through the Pensions Act 1995[1]. Therefore, Secretary of State is required to set the statutory minimum amount by which private sector defined benefit occupational pensions in payment must be increased each year.

[1] https://www.legislation.gov.uk/ukpga/1995/26/contents

- Pensions built between 6 April 1997 and 5 April 2005 must be increased by inflation but capped at 5 per cent.
- Pensions built on or after 6 April 2005 are capped at 2.5 per cent.

5.9 Although schemes must provide at least the statutory minimum they can provide more generous increases.

5.10 This Order therefore also sets the minimum amount by which pensions already in payment must be increased by in 2026. The indexation amount corresponds to the one-year revaluation rate specified in this Order.

New rates

5.11 The Consumer Price Index (CPI) figure for the year to 30 September 2025 was 3.8 per cent [2].

5.12 As the CPI figure for the year to 30 September 2025 exceeds the current caps for indexation and revaluation, the rates for 2026 will be 2.5 per cent where relevant.

What was the previous policy, how is this different?

5.13 The policy is unchanged. The Secretary of State is legally required to annually set the minimum levels of revaluation and indexation rates. Legislation referenced in 6.1 specifies how these rates are to be determined.

6. Legislative and Legal Context

How has the law changed?

6.1 The Secretary of State is required by the Pensions Schemes Act 1993[3] to make and lay an Order each year which sets the minimum rate of revaluation for preserved pensions in final salary occupational pension schemes. This Order applies to people who reach their scheme's normal pension age between 1 January 2026 and 31 December 2026.

6.2 The Pensions Act 1995[4] requires private sector defined benefit occupational pensions schemes which are in payment to be increased by a minimum amount each year.

6.3 The revaluation is 2.5 percent for people who reach their scheme's normal pension age between 1 January 2026 and 31 December 2026. The indexation rate will also be 2.5 per cent.

Why was this approach taken to change the law?

6.4 The law has not changed. This Order fulfils the Secretary of State's obligation to annually set the minimum rates of revaluation and indexation.

7. Consultation

Summary of consultation outcome and methodology

7.1 The Secretary of State is legally required to annually bring into force on 1 January an Order to set rates based on the general level of prices up to the preceding 30 September. Therefore, a consultation is not required.

[2] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/september2025
[3] https://www.legislation.gov.uk/ukpga/1993/48/schedule/3
[4] https://www.legislation.gov.uk/ukpga/1995/26/section/51

8. Applicable Guidance

8.1 If applicable, occupational pension schemes have procedures in place to implement the revaluation and indexation increases. This Order will provide schemes with the rates to calculate deferred pensions for people reaching the scheme's normal pension age and index pensions already in payment. No further guidance is required.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because there is no new impact on pension schemes in the private sector. They are required by law to provide a measure of protection against inflation.

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies because the policy has not changed.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no, or no significant, impact on the public sector because the policy has not changed.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The Secretary of State is legally required to make a new Order in 12 months which will supersede this Order.

10.2 The instrument does not include a statutory review clause.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

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

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 (“relevant European Union Acts”).