EXPLANATORY MEMORANDUM TO

THE OCCUPATIONAL PENSIONS (REVALUATION) ORDER (NORTHERN IRELAND) 2012

S.R. 2012 No. 426

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 paragraph 2(1) of Schedule 2 to the Pension Schemes (Northern Ireland) Act 1993 and is subject to the negative resolution procedure.

2. Purpose

2.1 This Order specifies the percentage by which preserved pension rights are revalued for members of salary related occupational pension schemes who leave their scheme before pension age ("early leavers").. An Order is made each year to apply to those who attain their scheme's normal pension age in the following calendar year. This year's Order affects people who reach the scheme's normal pension age in 2013.

3. Background

3.1 When a person changes jobs they also leave their employer's pension scheme. An employee can ask to have their pension rights transferred to the new scheme. Alternatively, the pension rights earned in the former scheme have to be safeguarded. It used to be that such rights were frozen at the point the person left the scheme. This meant that people who changed jobs could end up with much smaller pensions than people who stayed with the one employer all their working lives. To rectify this, the Social Security (Northern Ireland) Order 1985 protected the preserved pension rights (excluding guaranteed minimum pensions) of early leavers from the effects of inflation by providing that early leavers have to have their pension rights revalued when they reach scheme pension age.

3.2 Under paragraph 2 of Schedule 3 to the Pension Schemes Act 1993, the Secretary of State for Work and Pensions is required to make an annual occupational pensions revaluation order to revalue the rights of early leavers over the period for each complete year since the early leaver left the scheme. The revaluation provisions take account of changes in inflation subject to a cap of 5 per cent based on pensionable service prior to 6th April 2009 and a cap of 2·5 per cent based on pensionable service from 6th April 2009.

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 rates for Northern Ireland. The relevant Consumer Prices Index figure which governs this year's increase is 2·2 per cent.

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 and, as they merely discharge the Department's statutory duty to specify revaluation percentages, has concluded that they do 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 This Order does not require a Regulatory Impact Assessment as it amends an existing regulatory regime by a pre-determined formula such as the rate of inflation.

7. Financial Implications

7.1 None for the Department. Occupational pension scheme funding plans already incorporate projections of inflation in respect of preserved pension liabilities and therefore no extra costs are imposed by this Order.

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 Occupational Pensions (Revaluation) Order 2012 (S.I. 2012/2952) which comes into force on 1st January 2013. 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.