EXPLANATORY MEMORANDUM TO

THE SOCIAL SECURITY PENSIONS (LOW EARNINGS THRESHOLD) ORDER 2006

2006 No. 500

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 Social Security Pensions (Low Earnings Threshold) Order is made each year to set the Low Earnings Threshold for additional pension for the following year.

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

3.1 None.

4. Legislative Background

4.1 This Order is being made to effect the annual uprating of the Low Earnings Threshold for 2006/07.

5. Extent

5.1 This instrument applies to Great Britain.

5.2 Equivalent provision will be made by statutory rule in relation to Northern Ireland.

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 State Second Pension reformed the State Earnings-Related Pension Scheme (SERPS) from 6 April 2002. It boosts the additional State Pension of low earners, and brings carers and some long-term disabled people with broken work records into the system for the first time.

7.2 An important element of the reform is that, from 2002 onwards, earnings used to determine an additional State Pension that fall between the National Insurance Lower Earnings Limit (LEL) and the Low Earnings Threshold (LET) are treated as being at the LET.

7.3 The LEL is the level that a person's earnings become relevant for National Insurance purposes.

7.4 The following will be treated as if they had earnings at the LET for State Second Pension purposes:

- employees earning at or above the annual LEL up to the LET;
- qualifying carers; and
- qualifying disabled people.

7.5 The LET is £12,100 for the 2005/06 tax year.

7.6 Each year the Secretary of State is obliged to review the level of average earnings each year and, where he sees fit, set the LET for the following year accordingly by Order.

7.7 The Office of National Statistics' September whole economy (non-seasonally adjusted) index showed that the rise in average earnings over the period 1 October 2004 to 30 September 2005 is 3.4%. This means that, with rounding, the threshold is increased to £12,500 for 2006/07. This Threshold is directed by the Order.

7.8 The LEL is £4,264 for 2005/06 and will be £4,368 for 2006/07.

7.9 No consultation on this Order was necessary.

8. Impact

8.1 A Regulatory Impact Assessment has not been prepared for this instrument as it has no impact on the costs of business, charities and voluntary bodies.

8.2 There is no impact on the public sector of the provisions in this Order for 2006/07 as the effect is on expenditure for 2007/08 onwards.

9. Contact

PAUL LAPRAIK at the Department for Work and Pensions Tel: 020 7962 8157 or e-mail: paul.lapraik@dwp.gsi.gov.uk can answer any queries regarding the instrument.