

## SCHEDULES

### SCHEDULE 1

Section 40

#### EARLY LEAVERS: REVALUATION OF ACCRUED BENEFITS

- 1 The Pension Schemes Act 1993 is amended as follows.  
2 Before section 83 insert—

#### “82A Overview and meaning of “the 2015 Act commencement date”

- (1) This Chapter is about the revaluation of benefits for early leavers.  
(2) The table contains an overview of the contents of this Chapter.

<i>Section</i>	<i>General description</i>
Section 83	Benefits to which this Chapter applies
Sections 84 and 84A	Basis of revaluation: benefits accrued before the 2015 Act commencement date
Sections 84B and 84C	Basis of revaluation: benefits accrued on or after the 2015 Act commencement date
Section 84D	Special rules for hybrid benefits
Sections 84E and 84F	Revaluation by other methods
Section 85	Revaluation not to apply to substituted benefits
Sections 85A to 86B	Supplementary provision and definitions

- (3) In this Chapter “the 2015 Act commencement date” means the date on which paragraph 2 of Schedule 1 to the Pension Schemes Act 2015 comes into force.”

- 3 In section 83, for subsection (1A) substitute—
- “(1A) In subsection (1) “relevant benefits” means benefits that are—
- (a) retirement benefits payable to a member, or
- (b) benefits payable in respect of a member.
- (1AA) This Chapter does not apply to any benefits payable by virtue of pension credit rights except, in the case of a salary related occupational pension scheme, to the extent that they involve the member being credited by the scheme with notional pensionable service.
- (1AB) Where this Chapter applies in relation to a benefit payable by virtue of a pension credit right, then—
- (a) if entitlement to the relevant pension credit arose before the 2015 Act commencement date, the benefit is to be treated for the purposes

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of sections 84(1) and 84B(2) as attributable to pensionable service before that date;

- (b) if entitlement to the relevant pension credit arose on or after the 2015 Act commencement date, the benefit is to be treated for the purposes of sections 84(1) and 84B(2) as attributable to pensionable service on or after that date.

(1AC) “Pension credit rights” means rights that are attributable (directly or indirectly) to a pension credit.”

4 For section 84 substitute—

**“84 Old basis of revaluation: occupational pension schemes**

- (1) A benefit of the kind mentioned in section 83(1)(a) must be revalued in accordance with this section if it is attributable to pensionable service before the 2015 Act commencement date.
- (2) The benefit must be revalued using the final salary method unless it is—
  - (a) a money purchase benefit (see subsection (3)),
  - (b) an average salary benefit revalued in accordance with subsection (4), or
  - (c) a flat rate benefit revalued in accordance with subsection (5).
- (3) If the benefit is a money purchase benefit it must be revalued using the money purchase method.
- (4) If the benefit is an average salary benefit it must be revalued using the average salary method if the trustees or managers of the scheme consider the average salary method to be more appropriate than the final salary method.
- (5) If the benefit is a flat rate benefit it must be revalued using the default method if the trustees or managers of the scheme consider the default method to be more appropriate than the final salary method.

**84A Old basis of revaluation: personal pension schemes**

- (1) A benefit of the kind mentioned in section 83(1)(b) must be revalued in accordance with this section if it is attributable to contributions received before the 2015 Act commencement date.
- (2) The benefit must be revalued using the money purchase method.

**84B New basis of revaluation: occupational pension schemes**

- (1) A benefit of the kind mentioned in section 83(1)(a) that is a collective benefit must be revalued using the default method.
- (2) A benefit of the kind mentioned in section 83(1)(a) that is not a collective benefit must be revalued in accordance with the following provisions of this section if it is attributable to pensionable service on or after the 2015 Act commencement date.
- (3) The benefit must be revalued using the default method unless it is—
  - (a) a money purchase benefit (see subsection (4)),

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- (b) a salary related benefit (see subsections (5) and (6)), or
  - (c) a flat rate benefit revalued in accordance with subsection (7).
- (4) If the benefit is a money purchase benefit it must be revalued using the money purchase method.
- (5) If the benefit is a salary related benefit it must be revalued using the final salary method unless it is revalued in accordance with subsection (6).
- (6) If the benefit is an average salary benefit it must be revalued using the average salary method if the trustees or managers of the scheme consider the average salary method to be more appropriate than the final salary method.
- (7) If the benefit is a flat rate benefit it must be revalued using the final salary method if the trustees or managers of the scheme consider the final salary method to be more appropriate than the default method.

#### **84C New basis of revaluation: personal pension schemes**

- (1) A benefit of the kind mentioned in section 83(1)(b) must be revalued in accordance with this section if it is attributable to contributions received on or after the 2015 Act commencement date.
- (2) The benefit must be revalued using the default method unless it is a money purchase benefit.
- (3) If the benefit is a money purchase benefit it must be revalued using the money purchase method.

#### **84D Hybrid benefits**

- (1) This section modifies the revaluation requirements in this Chapter in relation to hybrid benefits.
- (2) “Hybrid benefit” means a benefit the rate or amount of which depends on which of two or more alternative methods of calculation produces the highest, or lowest, rate or amount.
- (3) For hybrid benefits—
- (a) first, calculate the benefit using each of those methods and revalue in accordance with this Chapter, and
  - (b) then, determine which method of calculation produces the highest, or lowest, rate or amount.

#### **84E Revaluation by other methods: general**

The fact that an occupational pension scheme provides for the amount of the pension or other benefit for a member or for any other person in respect of the member to be increased during the pre-pension period—

- (a) by the percentages specified during that period under section 151(1) of the Social Security Administration Act 1992 (directions specifying percentage increases for up-rating purposes), or
- (b) under any arrangement which, in the opinion of the Secretary of State, maintains the value of the pension or other benefit by

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reference to the rise in the general level of prices in Great Britain during that period,

does not in itself result in conflict with section 84 or 84B, if the increase falls to be determined by reference to an amount from which the guaranteed minimum for a member or a member’s widow, widower, surviving same sex spouse or surviving civil partner has not been deducted.

**84F Revaluation by other methods: transitional protection in certain cases**

- (1) This section applies to a scheme which, before the 2015 Act commencement date, provided for any description of benefits to which this Chapter applies to be revalued by a method that the scheme was allowed to use under subsection (3A) or (3B) of old section 84.
- (2) The scheme may continue to use that method of revaluation in relation to that description of benefits for so long as it continues to contain that provision.
- (3) In subsection (1), “the old section 84” means section 84 as it had effect immediately before the substitution made by Schedule 1 to the Pension Schemes Act 2015.”

5 After section 85 insert—

**“85A Power to add revaluation methods for personal pension schemes**

- (1) Regulations may make provision enabling or requiring benefits of the kind mentioned in section 83(1)(b) to be revalued by the average salary or final salary method in specified cases.
- (2) Regulations under this section—
  - (a) may amend this Chapter (and may, in particular, amend the average salary or final salary method as applied in relation to benefits of the kind mentioned in section 83(1)(b));
  - (b) may not change the revaluation method to be used for a benefit the right to which has already accrued.”

6 After section 86 insert—

**“86A The revaluation methods**

The revaluation methods referred to in this Chapter are defined by the provisions listed in the table.

<i>Method</i>	<i>Provision</i>
Average salary method	Paragraph 3 of Schedule 3
Default method	Paragraph A1 of Schedule 3
Final salary method	Paragraphs 1 to 2A of Schedule 3
Money purchase method	Paragraph 5 of Schedule 3

**86B Definitions of benefits referred to in this Chapter**

- (1) In this Chapter—

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“average salary benefit” means a benefit under an occupational pension scheme the rate or amount of which is calculated by reference to the member’s average salary over the period of service to which the benefit relates;

“final salary benefit” means a benefit under an occupational pension scheme that is calculated by reference to the member’s pensionable earnings, or highest, average or representative pensionable earnings, in a specified period ending at, or defined by reference to, the time when the member’s pensionable service in relation to that scheme ends;

“flat rate benefit” means a benefit under an occupational pension scheme the rate or amount of which is calculated by reference solely to the member’s length of service;

“salary related benefit” means a benefit under an occupational pension scheme the rate or amount of which is calculated by reference to the salary of the member.

(2) In subsection (1) “pensionable earnings”, in relation to a pension scheme and a member of it, means earnings by reference to which benefits under the scheme are calculated.”

7 In section 186(3) (statutory instruments subject to affirmative procedure), after paragraph (b) insert—

“(ba) regulations under section 85A, or”.

8 In Schedule 3 to that Act (revaluation methods), before paragraph 1 insert—

*“The default method*

A1 The default method is to revalue the benefits in any way in which they would have been revalued if—

- (a) in the case of an occupational pension scheme, the member’s pensionable service had not terminated, or
- (b) in the case of a personal pension scheme, contributions in respect of the member had not ceased to be paid.”

9 Omit paragraphs 3A and 4 of that Schedule.

10 In paragraph 5(1) of that Schedule, for “if his pensionable service had not terminated” substitute “if—

- (a) in the case of an occupational pension scheme, the member’s pensionable service had not terminated, or
- (b) in the case of a personal pension scheme, contributions in respect of the member had not ceased to be paid.”

11 Omit the following, which are no longer needed given the earlier provisions of this Schedule—

- (a) paragraph 31(3) of Schedule 12 to the Welfare Reform and Pensions Act 1999;
- (b) section 19(1) to (3) of the Pensions Act 2011.