

EXPLANATORY MEMORANDUM TO
THE SOCIAL SECURITY REVALUATION OF EARNINGS FACTORS
ORDER 2009

2009 No. 608

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 Revaluation of Earnings Factors Order is made each year to revalue historic earnings factors in line with the movement in average earnings.
3. **Matters of special interest to the Joint Committee on Statutory Instruments**
 - 3.1 None.
4. **Legislative Background**
 - 4.1 Section 148 of the Social Security Administration Act 1992 requires the Secretary of State to review changes in the general level of earnings annually to ensure that all earnings factors used for additional pension and the guaranteed minimum pension accrued in an occupational pension scheme contracted out of the state system, maintain their value and make a Revaluation of Earnings Factor Order each year. This Order is being made to affect the annual uprating of the earnings factors for 2008/09.
5. **Territorial Extent and Application**
 - 5.1 This instrument applies to Great Britain. Equivalent provision in relation to Northern Ireland will be made by statutory rule.
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**
 - **What is being done and why**

7.1 Earnings factors are the formulae for converting flat-rate and earnings-related National Insurance contributions into entitlement to flat-rate and earnings-related benefits, and for calculating earnings-related entitlement over a person's working life. They are derived from earnings upon which primary Class 1 contributions are paid, or treated as paid, and from Class 2 and Class 3 contributions paid. For years from 2002/03 onwards Additional pension accrues only on paid primary Class 1 contributions.

7.2 Each year the earnings factors derived in each previous year since 1978/79 are revalued in line with the movement in average earnings. This annual revaluation exercise allows earnings factors derived from historic earnings to be restated at current values as part of the calculation of new pensioners' entitlement to Additional Pension under both the State Earnings-Related Pension Scheme ("SERPS") and the State Second Pension. Earnings factors are also used to calculate the Guaranteed Minimum Pension ("GMP") for early leavers and retired persons in contracted-out salary-related schemes.

7.3 Revaluations of earnings factors have been calculated by reference to the movement of earnings over the period of 12 months from September-September, allowing time for the resulting Order to be made before the beginning of the tax year in which it is to apply.

7.4 During the period between September 2007 and September 2008, the Office for National Statistics' September whole economy (non-seasonally adjusted) index showed that average earnings in Great Britain increased by 3.1 % (including bonuses and arrears). This Order therefore provides for earnings factors for 2008/09 to be increased by that percentage and for earnings factors for earlier tax years to be increased by percentages which reflect, in addition, the increases provided for by previous Orders. The Order also makes provision for the rounding of earnings factors to the nearest whole pound for the purpose of calculating the additional pension element of any long-term benefit.

Consolidation

7.5 As the instrument does not amend another instrument, the question of consolidation does not arise.

8. Consultation

8.1 This is an existing annual process which fulfils the statutory duty of the Secretary of State and is not a result of developing or implementing new policy, therefore no consultation is necessary.

9. Guidance

9.1 Leaflets and guidance will be up-dated to reflect the new figures in due course.

9.2 An information notice will be issued to the financial press. The figures will also be published on the Department for Work and Pensions Website.

10. Impact

10.1 This instrument imposes no new impact on the private or voluntary sectors.

10.2 The impact on the public sector is negligible.

10.3 A full impact assessment has not been prepared for this instrument.

11. Regulating small business

11.1 This instrument imposes no new impact on small business.

12. Monitoring and review

12.1 The position is subject to review each tax year.

13. Contact

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