

*These notes refer to the Pensions Act (Northern Ireland)  
2008 (c.1) which received Royal Assent on 11 February 2008*

# Pensions Act (Northern Ireland) 2008

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## EXPLANATORY NOTES

### SCHEDULES

#### *Schedule 2 - Additional pension: simplified accrual rates*

##### **Part 1 - New Schedule 4B to the Contributions and Benefits Act**

*Paragraph 1* inserts new Schedule 4B into the Contributions and Benefits Act to provide for the new method of calculation of additional state pension.

Paragraph 1 of new Schedule 4B provides that the amount of additional state pension accrued for the years from the flat rate introduction year onwards is to be the aggregate of the appropriate amounts in respect of each year in which the pensioner was in contracted-in employment, calculated in accordance with Part 2 of that Schedule and the appropriate amounts in respect of each year in which the pensioner was in contracted-out employment, calculated in accordance with Part 3 of that Schedule.

Part 2 (paragraphs 2 to 5) sets out the calculation for the amount of additional state pension in respect of years of contracted-in employment.

Paragraph 2 provides that Part 2 applies to a tax year if the contracted-out condition is not satisfied for any tax week in the year.

Paragraph 3 provides that the appropriate amount for the year is to be either the flat rate amount where a person's total earnings factor does not exceed the low earnings threshold or, where there is a surplus earnings factor exceeding the low earnings threshold, the aggregate of the flat rate and earnings-related amounts.

Paragraph 4 provides that the "flat rate amount" of additional state pension will be the flat rate accrual amount ("FRAA") - £72.80 initially and then as updated annually by an order made under section 130AA of the Administration Act.

Paragraph 5 provides that the "earnings-related amount" is calculated by:

- identifying the surplus earnings between the low earnings threshold and the upper accrual point; then
- multiplying that figure by the relevant amount under the last order under section 130 of the Administration Act; then
- multiplying that amount by 10%; then

- dividing that amount by 44.

Part 3 (paragraphs 6 to 10) sets out the calculation for the amount of additional state pension in respect of years of contracted-out employment.

Paragraph 6 provides that Part 3 applies to a tax year if the contracted-out condition is satisfied for each tax week in the year.

Paragraph 7 prescribes that the appropriate amount for the year is to be calculated by subtracting amount B from amount A.

Paragraph 8 provides that amount A is the “flat rate amount” of additional state pension, as uprated annually under section 130AA of the Administration Act, where there is no surplus above the low earnings threshold.

Paragraph 9 provides that where there is a surplus exceeding the low earnings threshold, amount A is to be calculated by:

- identifying the assumed surplus for the relevant year between the low earnings threshold and the upper accrual point; then
- multiplying that figure by the relevant amount under the last order under section 130 of the Administration Act; then
- multiplying that amount by 10%; then
- dividing that amount by 44; then
- adding this amount to the flat rate amount for the year.

Paragraph 10(1) provides that amount B is to be calculated by:

- identifying the assumed surplus for the relevant year between the qualifying earnings factor and the upper accrual point; then
- multiplying that figure by the relevant amount under the last order under section 130 of the Administration Act; then
- multiplying that amount by 20%; then
- dividing that amount by the number of years in the pensioner’s working life.

Paragraph 10(2) provides that section 44B of the Contributions and Benefits Act is to be ignored in applying section 44(6) for the purposes of calculating amount B. This ensures that a person’s actual earnings factors are used in the calculation thereby producing an amount by way of a top-up to the benefits provided by their private pension scheme.

Paragraph 11 allows the Department to make regulations so as to vary any of the calculations described above in circumstances where a person has a combination of contracted-in and contracted-out employment within a tax year, or where a contracted-out pension scheme makes arrangements to buy back the state scheme rights of its members.

## **Part 2 - Revaluation of flat rate accrual amount**

*Paragraph 2* inserts a new section 130AA into the Administration Act to provide that the Department may make a corresponding order for Northern Ireland where the Secretary of State for Work and Pensions makes an order under section 148AA of the Social Security Administration Act 1992. This will allow the flat-rate accrual amount to be updated in line with earnings.

## **Part 3 - Consequential amendments**

Part 3 makes consequential amendments to the Contributions and Benefits Act.

*Paragraph 3* amends section 39 to remove redundant references to Schedule 4A (which has no effect in the context of the benefits under section 39) and to omit subsection (3) of that section (which no longer has any legal effect).

*Paragraph 5* inserts the necessary references into section 44 to refer to the new state second pension accrual regime introduced by the new Schedule 4B. The effect is that from the flat rate introduction year, those accruing state second pension for the purpose of their entitlement to a Category A pension will do so under the new rules.

*Paragraph 6* inserts a new subsection (4) into section 46 to provide that the component of widowed parent's allowance relating to state second pension will continue to be calculated under the existing regime set out in section 45 (and Schedule 4A) after the flat rate introduction year rather than under the new regime introduced by *section 9* (and the new Schedule 4B).

*Paragraphs 7 to 10* amend respectively sections 48A, 48B, 48BB and 48C to insert the necessary references to the new state second pension accrual regime introduced by the new Schedule 4B so that, from the flat rate introduction year, people bereaved after reaching state pension age will have their inherited state second pension entitlement in their Category B pension calculated under the new rules. The same will apply in respect of the state second pension component payable to bereavement allowance recipients.