

# EXPLANATORY MEMORANDUM TO THE SOCIAL SECURITY REVALUATION OF EARNINGS FACTORS ORDER 2011

2011 No. 475

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. Purpose of the Instrument

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

None.

## 4. Legislative Context

4.1 When entitlement to additional State Pension (SERPS/State Second Pension) is calculated the earnings on which it is based need to be revalued in line with earnings growth. The percentages set out in this Order will be used for revaluating earnings factors for additional State Pensions in tax years 2010/11 and earlier tax years.

4.2 As is normal practice, this Order is laid at the same time as The Social Security Pensions (Low Earnings Threshold) Order 2011 for which a separate explanatory memorandum has been produced.

## 5. Territorial Extent and Application

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 on primary Class 1 contributions and carers and disabled people entitled to certain benefits are treated as having an earnings factor for these purposes.

7.2 Each year the earnings factors derived in each previous year since the additional State Pension was introduced in 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 for early leavers and retired persons in contracted-out salary-related pension schemes.

7.3 Revaluations have been calculated by reference to the change in earnings over the period of 12 months from September-September. This allows sufficient 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 2009 and September 2010, the Office for National Statistics' Average Weekly Earnings statistic September year-on-year change (non-seasonally adjusted, including bonuses)<sup>1</sup> showed that average earnings in Great Britain increased by 2.3 %. This Order therefore provides for earnings factors for 2010/11 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 Outcome**

Consultation on this order is not appropriate.

## **9. Guidance**

9.1 Leaflets and guidance will be up-dated to reflect the new figures as part of the yearly leaflet review covering the annual uprating in April.

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 has no new impact on the costs of business and civil society organisations.

10.2 The impact on the public sector is negligible.

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

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<sup>1</sup> The Office for National Statistics has replaced National Average Earnings Index (AEI) with the Average Weekly Earnings statistic (AWE). See Table 6 NSAsect monthly growth ibia  
[http://www.statistics.gov.uk/downloads/theme\\_labour/AWE\\_Supplementary\\_tables.xls](http://www.statistics.gov.uk/downloads/theme_labour/AWE_Supplementary_tables.xls)

**11. Regulating small business**

This instrument has no new impact on the costs of small business.

**12. Monitoring and review**

The position is subject to review each tax year.

**13. Contact**

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