

**EXPLANATORY MEMORANDUM TO
THE SOCIAL SECURITY REVALUATION OF EARNINGS FACTORS ORDER 2006**

2006 No. 496

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 This Order is being made to effect the annual uprating of the earnings factors for 2006/07.

5. Extent

5.1 This instrument applies to Great Britain.

5.2 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

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 the 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.

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 2004 and September 2005, the Office of National Statistics' September whole economy (non-seasonally adjusted) index showed that average earnings in Great Britain increased by 3.4% (including bonuses and arrears). This Order therefore provides for earnings factors for 2004/05 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.

7.5 No consultation was necessary.

8. Impact

8.1 A Regulatory Impact Assessment has not been prepared for this instrument as it has no new 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

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