

SECTION 59A OF THE SOCIAL SECURITY PENSIONS ACT 1975

DIRECTION BY THE TREASURY

The Treasury, in exercise of the powers conferred by section 59A of the Social Security Pensions Act 1975¹ and now vested in them², make the following direction.

1. In this direction, unless the context otherwise requires,

“additional benefit” has the meaning given by regulation 5(2)(a) of the Social Security Benefit (Persons Abroad) Regulations 1975³;

“additional pension” means the sums which are referred to in section 150(1)(c) of the Administration Act;

“the Administration Act” means the Social Security Administration Act 1992⁴;

“the Contributions and Benefits Act” means the Social Security Contributions and Benefits Act 1992⁵;

“official pension” has the meaning given by section 5(1) of the Pensions (Increase) Act 1971⁶;

“pension authority” has the meaning given by section 7(1) of the Pensions (Increase) Act 1971;

“pensioner” means a person to whom an official pension has become payable;

“the Pensions Act” means the Social Security Pensions Act 1975⁷;

¹ Section 59A was inserted by section 11(4) of the Social Security Act 1979 (c.18). It was amended by section 9(9) of the Social Security Act 1986 (c.50), and section 190 of and Schedule 8 paragraph 9(2) to the Pension Schemes Act 1993 (c.48).

² See the Transfer of Functions (Minister for the Civil Service and Treasury) Order 1981 (S.I. 1981/1670).

³ S.I. 1975/563, to which there are amendments not relevant to this direction.

⁴ 1992 c. 5.

⁵ 1992 c. 4.

⁶ 1971 c. 56. Section 5(1) was amended by the Superannuation Act 1972 (c. 11), Schedule 6, paragraph 85.

⁷ 1975 c. 60.

“section 59 order” means an order made by the Treasury under section 59 of the Pensions Act⁸;

“section 109 order” means an order made by the Secretary of State under section 109 of the Pension Schemes Act 1993⁹;

“surviving civil partner’s pension” means an official pension payable in respect of the services of the pensioner’s deceased civil partner;

“surviving spouse’s pension” means an official pension payable in respect of the services of the pensioner’s deceased spouse;

and other expressions bear the same meaning as in the Administration Act and in the Contributions and Benefits Act.

2. Paragraphs 3 to 6 apply in the case of a pensioner:

- (a) who reaches pensionable age on or before 5 April 2016; or
- (b) who reaches pensionable age on or after 6 April 2016 and is entitled to additional pension.

3. Where the Treasury make a section 59 order increasing official pensions and the amount by reference to which the increase in an official pension under that order is to be calculated would, but for this direction, be reduced under section 59(5) of the Pensions Act by an amount equal to the rate of a guaranteed minimum pension, if at the time the section 59 order comes into force-

- (a) the additional pension to which the pensioner is entitled is less than the amount equal to the weekly rate or aggregate weekly rates of the guaranteed minimum pension or pensions to which he or she is entitled; or
- (b) the pensioner has not claimed his or her retirement pension and is not treated as having claimed it by virtue of regulations made under Part I of the Administration Act; or

⁸ Section 59 was amended by the Social Security Act 1979 (c.18), sections 11 and 21(4) and Schedule 3, paragraph 20; by the Social Security Act 1985 (c.53), Schedule 5, paragraph 33; by the Social Security Act 1986 (c.50), section 9(8); by the Pensions (Miscellaneous Provisions) Act 1990 (c.7), sections 1(7) and 5; by the Social Security (Consequential Provisions) Act 1992 (c.6), Schedule 2, paragraph 34; by the Pension Schemes Act 1993 (c. 48), section 190 and Schedule 8, paragraph 9(1); by the Pensions Act 2008 (c. 30), section 137; and by S.I. 2014/560, S.I. 2014/3168 and S.I. 2014/3229.

⁹ 1993 c. 48. Section 109 was amended by section 55 of the Pensions Act 1995 (c. 26); by S.I. 2005/2050; and by the Pensions Act 2014 (c. 19), section 24(1) and Schedule 13, Part 1, paragraphs 1 and 40.

- (c) the pensioner has made an election under regulation 2(1) of the Social Security (Widow's Benefit and Retirement Pensions) Regulations 1979¹⁰; or
- (d) the application of regulation 5 of the Social Security Benefit (Persons Abroad) Regulations 1975¹¹ is disqualifying the pensioner for the receipt of any additional benefit which would otherwise be payable to him or her by virtue of an order under section 150 of the Administration Act; or
- (e) section 113(1)(b) of the Contributions and Benefits Act¹² is disqualifying the pensioner for the receipt of any benefit and the pensioner requests the pension authority in writing that the reduction under section 59(5) of the Pensions Act should not be made; or
- (f) in respect of a surviving spouse's or surviving civil partner's pension, the pensioner is not entitled to a Category A retirement pension by virtue of section 41 of the Contributions and Benefits Act¹³, or a Category B retirement pension by virtue of section 48B¹⁴ or section 51¹⁵ of that Act;

the amount of that reduction shall be equal to the amount by which the pensioner's guaranteed minimum pension has been increased by virtue of a section 109 order in the tax year in which the section 59 order comes into force, and, subject to paragraphs 5 and 6, in any such case the increase shall, in respect of any period after the order comes into force, be calculated in accordance with this direction notwithstanding section 59(5).

¹⁰ S.I. 1979/642. Regulation 2(1) was amended by S.I. 1989/1642, S.I. 2005/453, and S.I. 2005/1551.

¹¹ S.I. 1975/563. Regulation 5 was amended by S.I. 1977/342, S.I. 1979/1432, S.I. 1989/1642, S.I. 1990/621, S.I. 1992/1700, S.I. 1994/1832, S.I. 2000/2876, S.I. 2005/1551, S.I. 2005/2877, S.I. 2010/788 and S.I. 2017/422.

¹² Section 113(1) was amended by the Civil Partnership Act 2004 (c. 33), section 254(1) and Schedule 24, Part 3, paragraph 38.

¹³ Section 41 was substituted by the Social Security (Incapacity for Work) Act 1994 (c.18), section 11(1) and Schedule 1, Part I, paragraph 9. Section 41(5) confers entitlement to a Category A retirement pension on certain men whose wife died on or after 6 April 1979. Section 41 has been repealed by the Welfare Reform Act 2007 (c. 5), Schedule 8, from a date to be appointed.

¹⁴ Section 48B was substituted by the Pensions Act 1995 (c. 26), section 126(b), Schedule 4, Part II, paragraph 3(1). Section 48B(1), (1ZA), (1ZB), (1A) and (1B) were substituted by the Pensions Act 2014 (c. 19), Schedule 12, Part 2, paragraphs 57 and 61 with effect from 6 April 2016. Section 48B confers a right to a category B retirement pension on certain persons whose spouse died while they were married or whose civil partner died while they were civil partners.

¹⁵ Section 51 was substituted by the Pensions Act 2014 (c. 19), section 23 and Schedule 12, Part 2, paragraphs 57 and 64 with effect from 6 April 2016. Section 51 confers a right to a category B retirement pension on certain persons who attained pensionable age before 6 April 2010 and whose spouse died while they were married or whose civil partner died while they were civil partners.

4. Where the condition specified in paragraph 3(a), (b), (c), (e), or (f) does not apply to a pensioner at the time a section 59 order comes into force but does apply to the pensioner at any time thereafter the rate of the official pension for any period following the application of the relevant condition shall be calculated as if that condition had applied to the pensioner since he or she first became entitled to a guaranteed minimum pension arising from the employment which gave rise to the official pension.

5. Where the condition specified in paragraph 3(b), (c), (d) or (e) has applied to a pensioner and ceases to apply to the pensioner at any time after the section 59 order comes into force the rate of his or her official pension for any period following the date on which the condition ceases to apply shall subject to paragraph 6 be calculated as if the direction in paragraph 3 had never applied in respect of that pension.

6. Where the condition specified in paragraph 3(d) becomes applicable to a pensioner at any time and the direction in paragraph 3 has previously applied to his or her official pension by reason of the same sub-paragraph (or its predecessor in an earlier direction) and this has ceased so to apply in accordance with paragraph 5, the rate of that pension shall be calculated as if the direction had been in force at all times since the direction had first so applied, unless the pensioner has been ordinarily resident in Great Britain at any time after the direction first so applied.

7. Paragraph 8 applies in the case of a pensioner who reaches pensionable age in the period 6 April 2016 to 5 April 2021 inclusive and is not entitled to any additional pension.

8. Where the Treasury make a section 59 order increasing official pensions and the amount by reference to which the increase in an official pension under that order is to be calculated would, but for this direction, be reduced under section 59(5) of the Pensions Act by an amount equal to the rate of a guaranteed minimum pension, the amount of that reduction shall be equal to the amount by which the pensioner's guaranteed minimum pension has been increased by virtue of a section 109 order in the tax year in which the section 59 order comes into force, and in any such case the increase shall, in respect of any period after the order comes into force, be calculated in accordance with this direction notwithstanding section 59(5).

9. Paragraph 10 applies in the case of a pensioner who reaches pensionable age on or after 6 April 2021 and is not entitled to any additional pension.

10. Where the Treasury make a section 59 order increasing official pensions and the amount by reference to which the increase in an official pension under that order is to be calculated would, but for this direction, be reduced under section 59(5) of the Pensions Act by an

amount equal to the rate of a guaranteed minimum pension, the amount of that reduction in respect of any period which ends on or before 5 April 2021 shall be equal to the amount by which the pensioner's guaranteed minimum pension has been increased by virtue of a section 109 order in the tax year in which the section 59 order comes into force, and in any such case the increase shall, in respect of any period after the order comes into force which ends on or before 5 April 2021, be calculated in accordance with this direction notwithstanding section 59(5).

11. In a case to which paragraph 2(b), 8 or 10 applies, the rate of an official pension shall be calculated as if this direction had been in force at all times from 6 April 2016 until 6 December 2018.

12. This direction comes into force on 6 December 2018.

13. The direction made by the Treasury under section 59A of the Pensions Act which came into force on 6 April 2016 is revoked.

Mike Freer

Paul Maynard

3rd December 2018

Two of the Lords Commissioners
of Her Majesty's Treasury

EXPLANATORY NOTE

(This note is not part of the Direction)

Official pensions – which are occupational pensions payable to or in respect of public servants – are increased under the Pensions (Increase) Act 1971, so that they maintain their value as against price rises. Where the Secretary of State makes a direction by virtue of section 151 of the Social Security Administration Act 1992 to the effect that certain social security benefits are to be increased by reference to the increase in prices over a specified period, section 59 of the Social Security Pensions Act 1975 requires the Treasury to make a parallel order increasing official pensions.

Public service pension schemes were contracted out and so must pay a guaranteed minimum pension (GMP) in respect of pensionable service in the tax years from 1978-79 to 1996-97 inclusive.

For those reaching pensionable age on or before 5 April 2016, the state retirement pension consists of two elements, namely a basic pension and an earnings related pension (now

known as additional pension). Double indexation of a GMP would occur if pension increases were paid in respect of a GMP under the Pensions (Increase) Act 1971 and the equivalent amount was also paid under the legislation which provides for the index-linking of state pensions. Increases to the earnings related state pension are equivalent to the indexation of a GMP for the tax years 1978-79 to 1987-88 inclusive, and are equivalent to the indexation of a GMP to the extent of any increase in prices above 3% for the tax years 1988-89 to 1996-7 inclusive. Schemes are required to index GMPs to the extent of any increase in prices up to 3% for the tax years 1988-89 to 1996-7 inclusive, under section 109 of the Pension Schemes Act 1993.

To avoid the double indexation of the GMP element of an official pension, section 59(5) of the Social Security Pensions Act 1975 requires the deduction of the amount of the GMP from an official pension before it is increased. This direction makes an exception to this requirement in the circumstances specified.

Paragraphs 3 to 6 apply to pensioners who reach state pensionable age on or before 5 April 2016. (Paragraph 1 has the effect that in this direction “pensionable age” has the meaning given by section 122(1) of the Social Security Contributions and Benefits Act 1992.) Although most pensioners who reach state pensionable age on or after 5 April 2016 will not receive additional pension, there are a few exceptions: widowed mother’s allowance, widowed parent’s allowance and widow’s pension. Accordingly, paragraphs 3 to 6 also apply to pensioners who reach state pensionable age on or after 5 April 2016 who are entitled to additional pension.

Paragraph 3(a) specifies the case where the GMP element of an official pension is not being in effect indexed in full because the earnings related state pension to which the pensioner would be entitled if the occupational scheme were not contracted out is less than his or her GMP.

Paragraph 3(b) specifies the case where the pensioner does not receive a state retirement pension because he or she has not yet claimed it because, for example, he or she is in receipt of incapacity benefit, or he or she is not treated as having claimed it.

Paragraph 3(c) specifies the case where the pensioner does not receive a state pension because he or she has elected to be treated as not having retired.

Paragraph 3(d) specifies the case where additional pension is in payment but is not being increased because the pensioner is resident in a country with which the United Kingdom does not have reciprocal arrangements for uprating social security pensions.

Paragraph 3(e) specifies the case where the pensioner is disqualified from receiving additional pension because he or she is in prison.

Paragraph 3(f) specifies the case of a GMP paid to a surviving spouse or civil partner, unless he or she is entitled to a Category A or Category B state retirement pension by virtue of his or her late spouse or civil partner’s National Insurance contributions.

Paragraphs 4, 5 and 6 prescribe how pensions increase is to be calculated when the conditions in sub-paragraphs 3(a), (b), (c), (d), (e) and (f) variously begin or cease to apply.

Paragraph 7 specifies pensioners who reach state pensionable age in the period 6 April 2016 to 5 April 2021 inclusive who are not entitled to additional pension.

Paragraph 9 specifies pensioners who reach state pensionable age on or after 6 April 2021 who are not entitled to additional pension. The direction therefore applies in the case of those who reach state pensionable age on or after 6 April 2021 but are already entitled to a GMP. However, in such a case, the direction only applies to pension increases in respect of a period ending on or before 5 April 2021.

Because section 109 of the Pension Schemes Act 1993 requires the occupational scheme to index any GMP earned in the tax years 1988-89 to 1996-97 inclusive up to a limit of 3%, paragraphs 3, 8 and 10 require the occupational scheme to deduct the amount of any increase under a section 109 order in the same tax year before calculating the increase due under an order under section 59.

The direction comes into force on 6 December 2018 and revokes the previous direction which came into force on 6 April 2016.