**EXPLANATORY MEMORANDUM TO**

# THE GUARANTEED MINIMUM PENSIONS INCREASE ORDER 2025

**2025 No. 264**

## 1. Introduction

1.1 This explanatory memorandum has been prepared by the Department for Work and Pensions and is laid before Parliament by Command of His Majesty.

## 2. Declaration

2.1 Emma Reynolds, Minister for Pensions at the Department for Work and Pensions, HM Treasury, confirms that this Explanatory Memorandum meets the required standard.

2.2 Sam Hainsworth, Deputy Director of Defined Benefit Pensions Policy at the Department for Work and Pensions, confirms that this Explanatory Memorandum meets the required standard.

## 3. Contact

3.1 Stephanie Dahm at the Department for Work and Pensions, email: DBstatorders@dwp.gov.uk can be contacted with any queries regarding the instrument.

## Part One: Explanation, and context, of the Instrument

## 4. Overview of the Instrument

***What does the legislation do?***

4.1 This instrument specifies the amount by which the Guaranteed Minimum Pension element of an individual's occupational pension entitlement (a Guaranteed Minimum Pension accrued in a formerly contracted-out occupational pension scheme between 1988 and 1997) must be increased with effect from 6 April 2025.

***Where does the legislation extend to, and apply?***

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is Great Britain.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is across Great Britain.

4.4 The Department for Communities in Northern Ireland will be producing its own legislation replicating the effect of this Order for Northern Ireland.

## 5. Policy Context

***What is being done and why?***

5.1 The State Pension used to be made up of two parts: the flat rate basic State Pension and the earnings-related additional State Pension. However, many employees were already members of pension schemes provided by their employer, therefore between 6 April 1978 and 5 April 1997, defined benefit occupational pension schemes could contract out their members from the earnings-related element of the State Pension (the "additional State Pension"), provided the scheme promised to pay a Guaranteed Minimum Pension to each scheme member. The Guaranteed Minimum Pension was intended to provide a pension which was broadly similar to the amount of additional State Pension the member would otherwise have been entitled to had they stayed in the State system.

5.2 A Guaranteed Minimum Pension is payable for life at age 60 for a woman or age 65 for a man, and includes survivor benefits which are payable to a widow, widower or surviving civil partner of the member. Contracting out continued to operate until April 2016, but Guaranteed Minimum Pensions did not accrue after 1997.

5.3 This is a yearly statutory Order which specifies the amount by which the Guaranteed Minimum Pension element of an individual's contracted-out occupational pension, built up from 6 April 1988 to 5 April 1997, in payment must be increased, with effect from April each year. Guaranteed Minimum Pensions are increased yearly to help ensure that the value of a member's pension has some protection against the effects of inflation. In accordance with section 109(3) of the Pension Schemes Act 1993[1] ("the 1993 Act"), the specified percentage is to be the percentage increase in the general level of prices or 3 per cent, whichever is less.

5.4 Under section 109(1) of the 1993 Act the Secretary of State is required to annually review the general level of prices in Great Britain.

5.5 Where there has been an increase in the general level of prices since the last review, section 109(2) of the 1993 Act requires the Secretary of State to specify the percentage by which there is to be an increase in the rate of that part of Guaranteed Minimum Pensions which is attributable to earnings factors for the tax years in the relevant period. The relevant period is the period beginning with the tax year 1988-89 and ending with the tax year 1996-97: see section 109(3A) of the 1993 Act[1]. A Guaranteed Minimum Pension built up before 6 April 1988 is not subject to a statutory requirement to increase.

The Order

5.6 The Secretary of State measures the increase in the general level of prices in the appropriate period using the Consumer Price Index (CPI).

5.7 The CPI figure for the year to 30 September 2024 was 1.7 per cent.

5.8 With the rate of inflation, as measured by CPI for the year to 30 September 2024, being lower than the indexation cap, the minimum rate that Guaranteed Minimum Pensions accrued between 1988 and 1997 are to be increased by is 1.7 per cent.

***What was the previous policy, how is this different?***

5.9 The policy is unchanged. The policy intent is to increase Guaranteed Minimum Pensions in payment, which were earned between the tax years 1988-89 and 1996-97, in line with the latest rate of inflation figure for the preceding year, ending on 30 September, capped at 3 per cent. This is done to help ensure that the value of a member's pension has some protection against the effects of inflation.

[1] https://www.legislation.gov.uk/ukpga/1993/48/contents/enacted

## 6. Legislative and Legal Context

***How has the law changed?***

6.1 The Secretary of State is required by the 1993 Act to lay a draft Order each year, which sets out the minimum level of indexation by which the Guaranteed Minimum Pension (GMP) element accrued between 1988 to 1997 of an individual's contracted out occupational pensions should be increased.

6.2 The Order does not change the legal requirement that Guaranteed Minimum Pensions must be increased (indexed) once in payment. The Order sets out the percentage by which Guaranteed Minimum Pensions accrued between April 1988 and April 1997 should be increased from April 2025.

***Why was this approach taken to change the law?***

6.3 The law has not changed. The Order fulfils the Secretary of State's statutory obligation under section 109 of the 1993 Act to lay an annual draft Order setting out the required level of indexation to ensure that members have an element of protection against the effects of inflation on the Guaranteed Minimum element of their pension.

## 7. Consultation

***Summary of consultation outcome and methodology***

7.1 Primary legislation requires the Secretary of State to lay an Order each year, coming into force on 6 April, based on their judgement of the increase in the general level of prices up to the preceding 30 September. There is no statutory duty on the Secretary of State to consult on this Order.

7.2 The Department does not consider that an informal consultation is appropriate in this case, as this is a technical order that gives effect to a statutory requirement, the terms of which are specified in primary legislation.

## 8. Applicable Guidance

8.1 Trustees and scheme administrators of formerly contracted-out schemes holding Guaranteed Minimum Pensions (which ceased to accrue from 1997) will be aware of the requirement to increase the Guaranteed Minimum Pensions in accordance with this instrument; no guidance is therefore necessary.

# <u>Part Two: Impact and the Better Regulation Framework</u>

## 9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because there is no new impact on pension schemes in the private sector, as businesses are already required by law to provide a measure of protection against inflation.

***Impact on businesses, charities and voluntary bodies***

9.2 There is no, or no significant, impact on business, charities or voluntary bodies. because there is no new impact on pension schemes in the private sector. Existing occupational schemes are already required by law to provide a measure of protection against inflation.

9.3 There is no, or no significant impact on small or micro businesses.

9.4 No specific action is proposed to minimise regulatory burdens on small businesses (employing up to 50 people) from the original requirement to uprate Guaranteed Minimum Pensions in line with general prices.

9.5 Removing small businesses (i.e. small schemes) from this requirement would adversely affect scheme members because their pensions would not receive protection against the effects of inflation.

9.6 There is no, or no significant, impact on the public sector.

## 10. Monitoring and review

***What is the approach to monitoring and reviewing this legislation?***

10.1 The Secretary of State is required by primary legislation to lay a new draft Order each year, which will supersede this Order.

10.2 The instrument does not include a statutory review clause because it does not make or amend regulatory provision in relation to any qualifying acts.

# Part Three: Statements and Matters of Particular Interest to Parliament

## 11. Matters of special interest to Parliament

11.1 None.

## 12. European Convention on Human Rights

12.1 Emma Reynolds, Minister for Pensions at the Department for Work and Pensions, HM Treasury has made the following statement regarding Human Rights:

12.2 "In my view the provisions of the Guaranteed Minimum Pensions Increase Order 2025 are compatible with the Convention rights."

## 13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform Act 2023) ("relevant European Union Acts").