EXPLANATORY MEMORANDUM TO

THE PENSIONS INCREASE (REVIEW) ORDER 2025

2025 No. 343

1. Introduction

1.1 This explanatory memorandum has been prepared by HM Treasury and is laid before Parliament by Command of His Majesty.

1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Declaration

2.1 Darren Jones MP, Chief Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Rebecca Molyneux, Deputy Director for Workforce, Pay and Pensions at HM Treasury confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Liam Claughton at HM Treasury Telephone: 07977 48780 or email: Liam.Claughton@hmtreasury.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 When there are increases in the general level of prices in the UK over a period under review, taken to be a year, pensions in payment, preserved pensions and preserved lump sums in public service pension schemes must be increased to account for such increases. This Order provides for an increase of 1.7 per cent from 7 April 2025 for all official pensions, except for those which have been in payment for less than a year, which will receive a pro-rata increase based on when they started to be paid.

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 the United Kingdom.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 Pensions in payment, pensions of members who have since left active service in a pension scheme (preserved pensions) and the pension lump sums of members who have since left active service in a pension scheme (preserved lump sums) must be increased in line with prices, when there is an annual increase in prices, to avoid the value of those benefits being eroded over time.

5.2 The Pensions (Increase) Act 1971 ("the 1971 Act") specifies official pensions for this purpose. The Social Security Pensions Act, 1975 ("the 1975 Act"), read with the 1971 Act, provides for orders to be made which specify the percentage increase for any year in which prices have increased.

5.3 Most pension increases for members of public service pension arrangements are provided under these statutory provisions, including these orders. However, some benefits, such as those paid under the older military pension schemes, are provided under separate statutory provisions or analogous arrangements.

5.4 In an annual direction made under section 151 of the Social Security Administration Act 1992 ("the 1992 Act"), the Secretary of State for Work and Pensions specifies the percentage by which additional pensions in long-term benefits (including the State Second Pensions) are increased, if there has been a change in the level of prices, as assessed under section 150 of the 1992 Act. Under section 59 of the 1975 Act, the level of increase for official pensions specified by annual Pensions Increase (Review) Orders is equal to the percentage specified by the Secretary of State for Work and Pensions to increase additional pensions in long-term benefits.

5.5 This increase is equal to the percentage rise in the Consumer Prices Index measure of prices inflation ("CPI") in the twelve months to the preceding September. CPI in the twelve months to September 2024 was 1.7 per cent.

5.6 Since 1987 the increase of official pensions has taken effect from the first Monday of the tax year. For the tax year 2025/2026, this will be 7 April 2025.

What was the previous policy, how is this different?

5.7 This Order does not change the policy on pension increases. It implements the annual increase of official pensions for the tax year 2025/2026.

6. Legislative and Legal Context

How has the law changed?

6.1 This Order specifies the annual increase that applies to official pensions for the tax year 2025/2026.

6.2 Sections 59 and 59A of the Social Security Pensions Act 1975 ("the 1975 Act") provide that the Minister for the Civil Service shall, by order, provide that the annual rate of an official pension may be increased by the same percentage as that specified in the annual direction given by the Secretary of State for Work and Pensions pursuant to section 151 of the 1992 Act. The Minister's enabling power was transferred to HM Treasury by virtue of the Transfer of Functions (Minister for the Civil Service and Treasury) Order 1981 (S.I. 1981/1670).

6.3 The increase specified is the percentage (or fraction of the percentage) by which the Secretary of State for Work and Pensions has, by direction under the provisions of section 151(1) of the 1992 Act, increased the sums referred to in section 150(1)(c) of that Act. These are the additional pension entitlements accruing to employees in respect of earnings for service after 5 April 1978, the date when the additional state pension was introduced.

6.4 This Order uses a number of terms, which are defined within the 1971 Act or the 1975 Act. Section 59(7) of the 1975 Act requires the 1971 Act to be read as if the terms of sections 59 and 59A of the 1975 Act were contained in Part 1 of the 1971 Act. For example, section 8(2) of the 1971 Act, read with sections 8(2A) and 8A, provide for when a pension "begins" for the purposes of the Act, and section 9 makes provision as to lump sums.

Why was this approach taken to change the law?

6.5 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 This is an annual order that prescribes figures as required by legislation and does not change existing policy. It does not require a consultation exercise.

8. Applicable Guidance

8.1 Guidance documents on the HM Treasury public website have been updated to reflect the new rates.[1]

8.2 Further guidance on the operation of pensions increase legislation for public service pension schemes is also available on the GOV.UK website.[2]

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because of the lack of impact on business.

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies because this legislation does not increase the costs of activities that are undertaken by business, charities or voluntary bodies.

9.3 The legislation does not impact small or micro businesses.

9.4 The impact on the public sector is an increase in pension payments to pensioners across public service pension schemes. Public service pension schemes use forecast September CPI assumptions to factor in the uprating of public service pensions provided by annual Pensions Increase (Review) Orders. The cost impact of price increases is accounted for in forecasts of departmental spending used for the Budget, and in Central Government Supply Estimates.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 This is an annual order. The approach to monitoring this legislation is that the Government will respond to any issues arising as part of this instrument's operation as required.

10.2 The instrument does not include a statutory review clause.

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[1] https://www.gov.uk/government/collections/public-service-pensions-increases

[2] https://assets.publishing.service.gov.uk/media/5a7f8c10e5274a2e87db6817/Guidance_on_the_operation_of_pensions_increase_legislation_for_public__service_pension_schemes_PU1941.pdf

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This Order references the Social Security Benefits Uprating Order 2025 as outlined in paragraph 6.2 and must be made after that Order.

12. European Convention on Human Rights

12.1 The Chief Secretary to the Treasury has made the following statement regarding Human Rights:

"In my view the provisions of the Pensions Increase (Review) 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").