

Pensions Bulletin

Fact Sheet 4

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CPI increases will apply from April 2011

1 Introduction

- 1.1 On 8 July 2010 Steve Webb, the Minister of State for Pensions, announced that the Government intends to use the Consumer Prices Index (CPI) as the basis for the statutory minimum revaluation and indexation of occupational pension schemes. Previously the basis was the Retail Prices Index (RPI).
- 1.2 In December 2010, the Department for Work and Pensions issued a consultation on the impact of using CPI as the measure of price increases on private sector occupational pension schemes.
- 1.3 This Fact Sheet summarises the position for The Pensions Trust and is based upon advice received from our legal advisers.

2 Increases to pensions in payment

- 2.1 Under the Rules of The Pensions Trust, pensions in payment are (subject to individual schemes promising variations) increased by applying statutory Limited Price Indexation (LPI) increases i.e. RPI limited to 5% or 2.5% as appropriate.
- 2.2 Because the statutory basis is being changed from RPI to CPI, from 6 April 2011 pensions in payment will be increased by CPI, capped at either 5% or 2.5% as appropriate.
- 2.3 There are some schemes at The Pensions Trust where there is a declared objective of increasing pensions fully in line with the Index (which is defined by the rules as RPI). Therefore, although the basic increase applied will now be linked to CPI, the 'declared objective' is still linked to RPI. In the event of funding permitting, additional increases would therefore be linked to RPI.
- 2.4 If any employers or pensions committees wish to retain the link to RPI, it will be necessary to make a change to the rules via the Scheme Document. In relation to the pension schemes at The Pensions Trust:
 - The sponsors of single employer pension schemes have already been contacted by The Pensions Trust and have been informed that unless they take action to amend the rules of their scheme, pension increases from April 2011 will automatically be linked to CPI rather than RPI.
 - The Trustee of The Pensions Trust has decided not to amend the rules of the Growth Plan and The CARE Scheme in order to maintain the link with RPI. Therefore, pension increases from 2011 onwards will be linked to CPI.
 - The pensions committees in relation to each of The Pensions Trust's multi-employer pension schemes (namely the Social Housing Pension Scheme, the SFHA Pension Scheme, The Independent Schools' Pension Scheme, the Scottish Voluntary Sector Pension Scheme and the Northern Ireland Charities Pension Scheme) will consider whether or not to retain the link to RPI.



Please note that the retention of RPI as the basis for calculating pension increases could be considered to be a benefit improvement, as historically RPI has been higher than CPI.

2.5 The above does not have an impact on pensions that are subject to fixed rate increases in payment.

3 Revaluation of deferred pensions

3.1 Under the Rules of the Trust, deferred revaluation is not linked to the statutory rate but rather to the 'Index', which is effectively RPI.

3.2 The Government is not proposing to override scheme rules to say 'all references to RPI should be read as references to CPI'. Therefore, CPI **will not** replace RPI as the basis for revaluing deferred pensions.

3.3 It would be possible to amend the rules of a scheme to link revaluation to CPI, by way of a scheme amendment. However, this could only apply to benefits built up from the date of the rule change.

3.4 Sponsors of single employer schemes, and pensions committees of multi-employer schemes, have been asked whether they wish to adopt CPI as the basis for revaluation of future benefit accrual. This is not an option for those schemes that are closed to future accrual and is likely to be of limited benefit to those closed to new members.

3.5 The Government intends to introduce amending regulations that will make changes to revaluation and indexation 'listed changes'. Therefore, should an employer wish to change the basis of revaluation of future benefit accrual it will be required to consult with affected members.

3.6 Consultation is **not** required in respect of CPI being used as the basis for increasing pensions in payment because no change is being made to the scheme rules. The change from CPI to RPI is as a result of a change to the statutory basis, not a decision by the employer or Trustee.

4 Scheme literature

4.1 The Pensions Trust will make sure that our members are informed of the changes detailed above and all relevant scheme documentation, including member booklets, is updated.

While every effort has been made to ensure the accuracy of the information contained in this Fact Sheet, it should not be treated or relied upon as a statement of law. Readers should contact their regular Account Manager at The Pensions Trust in relation to their own circumstances and/or refer to the original source material as appropriate.