Change to Consumer Price Index – Q&A

I have a scheme booklet that says benefits will be increased by the RPI. Surely the scheme must honour this statement?

Where the RPI has been referred to in scheme booklets it has been done so as an example of how 'index linking' works. References in scheme booklets to uprating pension are not a guarantee that a particular index will be used. The uprating of pensions is governed by primary legislation, and the scheme rules which provide for a few aspects of those indexation arrangements to be linked to that primary legislation. This legislation overrides any statement in scheme booklets.

Increases by reference to the RPI is in the Civil Service pension scheme rules. So how can this change to CPI?

The Civil Service pension scheme rules do not set out the method of uprating pensions in payment. Civil Service pensions along with other Public Service pension are increased under the provisions of the Pensions (Increase) Act 1971, sections 59 and 59A of the Social Security Pensions Act 1975 and sections 150 and 151 of the Social Security Administration Act 1992. There is nothing in this legal framework that guarantees increases by reference to a particular index. The level of increases is decided following the Secretary of State for Work and Pensions' annual review of the general level of prices. The Civil Service scheme and the other Public Service schemes apply the increase as directed by a HM Treasury Order that reflects the Secretary of State's decision.

I bought added pension on the understanding that increases would be by reference to RPI. Surely I have a contractual right for my added pension to be uprated by reference to RPI?

The legislative framework for uprating Public Service pensions contemplates that the Secretary of State for Work and Pensions may decide that a different measure of the general level of prices is more appropriate. As this is the case, it is logical to refer to the index in use at the time in scheme literature. However, that does not of itself give a contractual right to RPI uprating.

CPI is lower than RPI so why is it being used?

The Government believes that the CPI provides a more appropriate measure of changes in the cost of living for pensioners and benefit recipients. For example, using the CPI in 2011 means Public Service pensions will rise by 3.1%, reflecting the annual increase in the CPI at September 2010. For 2010, the year-on-year change in the RPI at September 2009 was negative and Public Service pensioners did not receive an annual increase in their pensions that year. The major reason for that fall in the RPI was falling mortgage interest payments. However, as only 7% of UK pensioners have a mortgage, most of those who did not receive a pension increase in the 2010-11 financial year had not benefited from the reduced mortgage interest payments.

The factors used to work out my added pension contribution / the transfer of my pension rights were based on pensions increasing in line with RPI. Are you going to retrospectively review the factors?
There are no plans to retrospectively review the factors. Reference to RPI was just one element that was taken account of when determining the factors.

Where can I find more information about the decision to move to the CPI?

The Chancellor of the Exchequer announced the change in his Emergency Budget speech on 22 June 2010. The full speech can be found on HM Treasury's website:

www.hm-treasury.gov.gsi.uk/junebudget-speech