Pension Increase explained

ROB: If you're receiving your pension, you may be familiar with the term Pensions Increase. But what is it and how does it work?

EMILY: Both very valid questions. And with us today to talk it through is Michelle Storer, Senior Trainer Consultant from Civil Service Pensions. Michelle, welcome back to the podcast. Thank you so much for being here.

MICHELLE: Thank you very much, nice to be back.

ROB: So Michelle, let's start with the basics. What is Pensions Increase?

MICHELLE: Every year on the first Monday after the 6th April , pensions are adjusted in line with the cost of living. The value of the pound changes continuously. So, we need to make sure that people don't lose any of the pension because what you can spend a pound on now versus last year is very different. So, an increase is applied to make sure that they're not losing any because of those changes. So, the adjustment is then set by the Government.

The pension scheme uses the Consumer Price Index. So, that's something that's worked out looking, again, at if you had a tenner, what could you spend it on this year versus last year? It's always increased in line with the Consumer Price Index. It's applied to pensions in payment, and it's set at a certain time of the year. This year's increase was determined in September. So, they always use the previous September', so being applied in April this year was September's from last year and that was 1.7%.

So there's always a bit of a buzz around what the Consumer Price Index is, particularly in September, because for this September, that'll be applied in April next year.

EMILY: Interesting. Okay. So, is everybody eligible for the Pensions Increase then?

MICHELLE: Not necessarily. So anyone aged over 55, absolutely. Anybody who's retired between 50 and 55 don't get an increase on their pension until 55. But anyone who is under 55 and retired, either on the grounds of ill health or someone in receipt of a widow's or widower's pension, a partner or civil partner's pension, a child's pension.

ROB: So, can you just explain what pensions increase looks like, you know, just for the average person?

MICHELLE: Yeah, without all these little quirks in there.

ROB: Yeah.

MICHELLE: Absolutely. So, when somebody retires, because the earliest someone can retire now is 55. So, that rule around no increases being applied if you retire under 55 isn't going to impact people in nuvos, in alpha, and will only impact a certain number of people in premium. So normally, somebody retires at any point over 55, then when their pension starts to be paid the following April, they would receive an increase and so on and so on. ~

ROB: …and every single year from henceforth?

MICHELLE: Absolutely.

ROB: Okay, so I guess with active members, because obviously you're not in receipt of your pension as an active member, but yet it still goes up. So, how does that work?

MICHELLE: So because on alpha, as that's now the current scheme, the pension is built up every year. So, on the 31st March, every year, we're told by the employer what their salary is, and we calculate 2.32% of that salary and they bank that amount of pension. So, they're going to be having the same calculation done at the same time of the year, every year, whilst they remain active. So, if they've been in alpha for 10 years, that pension that they banked in year one isn't going to be worth much due to the changes in the cost of living than it would now. So what we need to do every year is ensure that it's keeping up with the changes in the cost of living so that it doesn't get devalued over time. And members can see that, it's called an annual adjustment on the Annual Benefit Statement. So they can see the pension building and they can see the adjustment that's applied every year. So for example, in 2023, it was 10.1%.

So, while people were building it up in alpha, that then in that year, of course it had been increased before, but then it went up by 10.1%.

ROB: So the pensions increase for active - or it's not called pensions increase for active members, but that increase that happens - so every year your pension is increased by 2.32% of whatever your salary is in that year, plus an adjustment on that amount for inflation, but not across the entire amount that you've built up, yeah?

MICHELLE: On the entire amount.

ROB: On the entire amount? So you're effectively compounding that. So, you're getting an increase every single year, even though it's been applied previously. Goodness me.

MICHELLE: Yeah, so everything that they've banked at 31st March for all those previous years goes up by inflation. Then they add 2.32%. So, that block's built up and then all of that block goes up by inflation again.

ROB: Wow. Yeah, so hence why it's so generous.

MICHELLE: Absolutely. And for people who aren't getting inflation matching increases on their salary, they're seeing their alpha pension, their nuvos pension, which is only going up by inflation now, but building up quite quickly as a result of that. And I think in 2023, when they got the annual statements, that made a lot of people notice and go, “Oh!”

EMILY: “Hello!”

MICHELLE: “Hang on!”. And it's also why some people who are impacted by the McCloud judgment; that big jump in 2023, in the following year, was 6.7%. So, over two years, it's a very big inflation adjustment on their alpha, as they were building it. That could be the difference around why somebody's Option A and Option B on the McCloud judgment are massively different.

EMILY: That’s a really good point. And that's not the norm, is it? To see that annual increase be quite so significant. 10.1%, I remember that. That was massive. But normally year on year, it's what, one or two?

MICHELLE: Yeah, so like it's probably going to be 1.7% because inflation like last year in September was, so for this year, people would have seen 1.7%. We will see what it is in September and then the treasury will make a call on whether they're going to match that and that will be applied in the following April. While people were thinking that cost of living bills were going up, things like that, people who were in receipt of a pension benefited from that. And then people in alpha benefited from that as active members.

EMILY: Interesting. Okay. So, how does it affect lump sum payments?

MICHELLE: So yeah, it can have an impact on lump sum payments as well. So members may end up receiving a second lump sum based on changes to information and any increases that are applied to the lump sum. So, a letter is sent out to them to let them know. It's a very detailed letter that says, this is what's happened, tells them the increases that have been applied, so they might end up with a second payment going into their bank account.

ROB: So I guess that's not the majority of members. That's quite a kind of, rare thing. Okay. That's good to know. I imagine we get quite a lot of questions about this, then, every year, as you said, know, September and sort of April being the sort of peak time. What are the most common questions that you see, Michelle?

MICHELLE: So we get things like, “I've received this year's pension increase, but my monthly pension has gone down. So if you're saying it's increased, why am I getting less?” And there can be reasons around that, like tax codes change, because when we change somebody's pension, we have to let HMRC know. They know all about that individual's income, so they may have to adjust the tax code because they're now getting more. So, we would always suggest that they check on the Government Gateway. I mean, if they're registered with that, they should get a notification about changes in tax code.

And it's one of the things where, I signed up so I knew before it actually hit my payslip. If it has changed, it might mean more taxes being deducted. So again, looking on the Government Gateway or raising that query with HMRC. Other questions, like "I haven't had the full increase". So that could be down to a change in tax code again, or it might be that you're not eligible as you don't fall under certain criteria. So, for people who reach State Pension Age before the 6th April 2016, and we're working in the Civil Service prior to the 6th April 1997 - and this is when all things were changing - part of their pension increase is actually paid within their state pension. So, they might not understand that at that point. And if someone's retired part way through the year, they may only be eligible for a part-increase and therefore not the full one. So they'll be querying that one. Or it could be because of the paid dates. So, pensions are paid in arrears. So, someone retires on 10th October, then it would be 10th November, backdated. So, it could literally come down to that payday because it's being paid in arrears. That might be a reason then they would see the full increase in the following month.

EMILY: It's obviously a really popular topic, the pensions increase. How can members find out more?

MICHELLE: So, there was the pensioner newsletter that's sent out every year. So, the previous one actually had a video where it explained the P60. That provides information about how your pension's paid, increases that have been applied. And of course, on the website, so we've got civilservicepensionscheme.org.uk/PI.

ROB: Great. Well, I feel like we have learned a lot in a very short space of time there. Michelle, thanks so much for joining us today and telling us more about the annual pensions increase.

MICHELLE: Thanks for having me again.

ROB: To find out more about anything we've talked about today or to tell us what you'd like to cover in a future episode, head to civilservicepensionscheme.org.uk/podcast. You can also find links to information, transcripts, and accessible versions of this podcast in the episode description.

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ROB: This episode was recorded in September 2025. All information is accurate at the time of recording. Thanks for listening.