

## RPI/CPI – A LITTLE BIT OF GOOD NEWS FOR EMPLOYERS?

COMMENTARY BY [PAUL NEWMAN QC](#), 15 OCTOBER 2019

When the index used to calculate statutory increases to pensions in payment and the revaluation of deferred pensions was changed from RPI to CPI in 2011, the Government declined to require CPI to be applied to increases and revaluation in the private pensions sector. More recently, in its 2017 Green Paper on pensions, the Government suggested that it was open to allowing all pension schemes to replace RPI with CPI, but it rowed back from that suggestion in its 2018 White Paper, saying that it was presently ruling out measures to override scheme rules on that issue.

This means that schemes will continue to apply RPI if that index was "hardwired" into their rules, unless RPI itself is replaced by some other index; and despite plenty of criticism of RPI, the possibility of it being phased out has always been resisted, on the basis that payments under index-linked gilts ("ILAs") are calculated using RPI. The Government has always been wary of removing RPI, not least because the holders of many well-established ILAs have a contractual right to redeem them if there is a fundamental and materially detrimental change to RPI. Accordingly, the possibility of abolishing RPI as an officially-published measure of inflation has always been ruled out until at least 2030, when the last of the ILAs with such contractual rights will mature.

Further, under the Statistics and Registration Service Act 2007, before making any change to the coverage or basic calculation of RPI, the UK Statistics Authority ("UKSA") must consult the Bank of England, and changes which may result in the redemption of ILAs cannot be made without the consent of the Chancellor of the Exchequer.

In March 2019, UKSA asked the Chancellor to amend the law to allow RPI to cease being published, and in the meantime UKSA proposed that RPI be aligned with a variant of CPI which includes owner-occupier's housing costs, known as CPIH.

In September 2019, the Chancellor rejected UKSA's request to amend the law, and said that, given that users of RPI will need substantial time to prepare, he would not move to align RPI with CPIH before February 2025. The Government will instead consult on whether to align RPI with CPIH between 2025 and 2030, and if so, when. That consultation will begin in January 2020 and the Government's response will be published before the Chancellor's Spring Statement and the end of the 2019/2020 financial year. The Chancellor reconfirmed that the Government views CPIH as conceptually the best measure of inflation and that its objective is that CPIH will become its headline measure of inflation over time.

Even given the delay until at least 2025, a commitment by the Government to align RPI with CPIH is a small but welcome step for employers who are stuck with RPI as the applicable index for increasing and revaluing pensions, as the proposed change is expected to lead to lower pension increases and lower revaluations in deferment. The proposed alignment may lead to an immediate actuarial reduction in the long-term liabilities of the scheme and should also be taken into account when transfer value and buy-out quotations are being obtained. This may also have an impact for schemes invested in inflation-linked assets or adopting inflation-hedging measures.

There has currently been a muted response to this announcement by the gilts market, suggesting that there is some scepticism as to whether the change will be made before 2030, or perhaps because the market currently has other things on its mind, such as something beginning with 'B'?

For more information on our Pensions practice, [please click here](#).

To read Paul Newman QC's previous Pensions Commentary, [please click here](#).