The PENSIONS Advisory Service

Spotlight

The change from RPI to CPI: introduction

This factsheet summarises the implications of the government's decision from 2011, to use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) as the inflation measure for minimum statutory increases to pensions in payment and to revaluation of "preserved" (deferred) pensions in both public sector and private sector occupational pension schemes.

What is the difference between RPI and CPI?

- RPI reflects the average spending pattern of most private households, excluding pensioner households and householders with the top 4% of income.
- CPI covers all private households, including the residents of institutional households such as student hostels, and also foreign visitors to the UK. This means that it covers some items that are not in the RPI, such as unit trust and stockbrokers' fees, university accommodation fees and foreign students' university tuition fees.
- RPI includes mortgage interest payments. Thus, changes in the interest rates affect the RPI. If interest rates are cut, it will reduce mortgage interest payments meaning RPI will fall but CPI will not.
- RPI includes council tax and some other housing costs not included in CPI.
- CPI includes some financial services not included in RPI.
- CPIH is a variant of CPI and includes owner-occupier's housing costs. The Government has indicated that it views CPIH as the best measure of inflation and that it intends that CPIH will eventually become the main measure of inflation used.
- Over the last 10 years, CPI has typically been around 0.7% lower than RPI. However, this has not always been the case, and in some instances, CPI has been higher than RPI.

Background

The Government announced as part of the June 2010 Budget that it planned to use, from April 2011, the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for annual increases to certain state benefits and public sector pensions. On 8 July 2010 the Government said that CPI would also apply to private sector occupational pensions from April 2011, but only for minimum statutory increases. So, from April 2011, CPI (not RPI) would be used for the minimum increases applying to pensions in payment for pensioners and also for the revaluation of "preserved" (frozen) pensions.

The Government has indicated in September 2019, that given that users of RPI would need time to prepare, it was not to move to align RPI with CPIH before February 2025.

Compulsory increases prior to drawing a pension

Private sector

Before 1 January 1986, when a member of a private sector defined benefit occupational pension scheme left employment, the pension built up could remain frozen, meaning the amount of pension did not increase between the date of leaving and retirement. There was an exception for contracted out pension schemes where a part of the pension had to be increased under contracting out rules.

If you were a member of a defined benefit scheme who left pensionable service on or after 1 January 1991, your preserved pension is compulsorily increased between your dates of leaving and retirement, based on price inflation. The level of increase broadly depends upon the regulations in force when you left service.

As these increases were compulsory and overriding, schemes did not have to write these into their pension scheme rules. They applied anyway. In practice some schemes have rules that refer to a specific level of increase; some refer to increasing pensions in accordance with legislation in force; but some schemes have written or “hard-wired” RPI into their rules.

The impact of the change will therefore depend on how the relevant scheme rules are written. Please see below for further details.

Public sector

Public sector pension schemes were already increasing pensions in line with inflation (using RPI). They will now use the CPI to increase these pension rights. Please see below for further details.

Compulsory increases when pensions in payment

Private sector

Before 6 April 1997, private sector defined benefit occupational pension schemes were not required to increase pensions in payment. There was an exception for contracted-out pension schemes where a part of the pension had to be increased under contracting-out rules.

The government has since then introduced an element of compulsory increases for pensions that have come into payment from 6 April 1997. Increases only have to apply in respect of pension built up after the regulations were introduced. Pension schemes did not have to write these increases into their rules as the government’s requirements had to be applied as a minimum, whether in the rules or not.

In practice some schemes have rules that refer to a specific level of increase; some refer to increasing pensions in accordance with the regulations that are in force; but some schemes have written or “hard-wired” RPI into their rules.

The impact of the change will therefore depend on how the scheme rules are written. Please see below for further details.

Public sector

Public sector pension schemes were already increasing pensions in line with inflation (using RPI). They will now use the CPI to increase these pension rights.

The change to CPI

Public sector schemes

Public sector schemes are governed by the Pensions (Increase) Act 1971 which refers to increases as announced by the Secretary of State from time to time. The Secretary of State announced that CPI would replace RPI from 6 April 2011 as the rate used for the annual increases he sets. This therefore automatically changed the increases for public sector scheme members. This applies both to the increase to preserved pensions prior to drawing a pension and to increases to pensions which are being paid.

The change to CPI was effective from 2011 onwards; increases announced in the past remain at RPI, and some schemes have RPI "hard-wired" in their rules.

Private sector

The rules of your scheme will dictate how increases for pensions in payment and for preserved (deferred) pensions are to be applied. In addition, as covered earlier, legislation imposes some requirements on pension schemes to make minimum increases. Our website outlines the rates and when these must be applied, see https://www.pensionsadvisoryservice.org.uk/about-pensions/retirement-choices/pensions-in-payment/annual-increases.

The rates for these statutory minimum pension increases are set by the government and where this relates to price inflation the rate is announced each year. The government decided that from 2011, the rate will relate to CPI rather than RPI.

With regard to increases **above** the statutory minimum, the Government has not to date introduced an overriding statutory power allowing schemes to switch automatically to CPI-linked indexation or revaluation where RPI was "hard-wired" or written into the scheme rules. In fact, in the 2018 White Paper, it stated that it was presently ruling out any measures to override scheme rules to impose CPI instead of RPI.

As mentioned earlier, some schemes have RPI "hardwired" in their rules so that increases would specifically be based on RPI. These schemes are likely to need to change their rules if they want to introduce CPI instead. This will be difficult – benefits are protected by restrictions in scheme rules (normally in the amendment power) and section 67 of the Pensions Act 1995 limits a scheme's ability to make changes that worsen benefits already built up. As stated above, the government is not currently introducing legislation forcing schemes to change to CPI.

Changes can generally be made to the rules in respect of benefits built up in the future. Some changes may trigger a requirement on the employer to consult before making the change (this excludes changes to comply with statutory requirements). Changing the rate at which pensions in payment are increased or preserved pensions are revalued is now a change that could require consultation, if the change is likely to be less generous.

Schemes that continue to use RPI will not be required to also check whether CPI will provide a higher increase.

How can TPAS help?

We are unable to provide a legal opinion as to whether a scheme is acting appropriately and in line with their rules. But we may look into private sector schemes that change their rules to apply increases using CPI, where RPI was previously written into the rules.

If you are concerned that you have received scheme literature referring to RPI increases and are now finding that CPI applies in the future, we expect that your scheme rules and any requirements imposed by government have taken precedence over leaflets, announcements, letters or booklets issued to you.

If you believe that you have relied on leaflets, announcements, letters or booklets from your scheme that refer to RPI, and taken action or made decisions and are now worse off, you will need to provide evidence. You will need to show how it formed part of your decision making, and why you are subsequently worse off. However, we consider that it will be hard for a complaint about future pension increases to succeed.

The Pensions Ombudsman has since 2012, determined on a few cases concerning this issue and has not upheld any of them, apart from one case, which was partially upheld.[1.] He has often said that even if the relevant individual had been made aware that another measure for inflation might be used in the future, that individual is unlikely to have acted any differently.

1. *Anderson (PO- 2088)*

About Us

The Pensions Advisory Service (TPAS) works to make pensions accessible and understandable for everyone. We provide independent and impartial information and guidance about pensions, free of charge, to members of the public.

We help with all pension matters covering workplace, personal and stakeholder schemes and also the State Pension. We answer general questions, help with specific queries and offer guidance for people with complaints about their private pension scheme.

The Pensions Advisory Service is provided by Money & Pensions Service

Contacting us

Pensions Helpline **0800 011 3797**
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Online enquiry form www.pensionsadvisoryservice.org.uk/online-enquiry

Web chat live www.pensionsadvisoryservice.org.uk
8am-6.20pm Monday/Wednesday/Friday
9am-6.20pm Tuesday/Thursday
9am-1pm Saturday

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