



Securing the future of pensions

CPI: The view of pension schemes

Report on an NAPF member survey

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CPI: THE VIEWS OF PENSION SCHEMES

report on an NAPF member survey

This report sets out the views of NAPF members on the Government's plans to allow private sector pension schemes to switch from using the Retail Price Index (RPI) to the Consumer Price Index (CPI) as the basis of indexation of pensions in payment and revaluation of deferred pensions.

It presents findings on pensions schemes' current approaches to indexation and revaluation, examines how easily they could make the switch to CPI and considers how any necessary changes to scheme rules could be made.

Key findings

- Comments from NAPF members (a selection is given in this report) illustrate the complexity and variety of pension scheme rules. Many schemes have several sections – each with different rules.
- 68% of schemes have RPI written into their scheme rules on indexation.
- 61% of DB pension schemes say they would not be able to make the switch to CPI indexation without some form of legislative assistance.
- Almost half of schemes (48%) would make use of legislation that helps them to switch to CPI. A further 31% 'don't know' on this point. It is likely that many of these are waiting to see the details of the legislation before deciding on their approach.
- Only 31% of schemes have RPI written into their rules for revaluation of deferred pensions. 54% of schemes follow 'statutory requirements' or adopt the increase used for public sector pensions.
- 55% of schemes feel the decision to switch to CPI should be a matter for the employer acting with trustees' consent.

Notes on the survey

This online survey was conducted between 1st and 13th September 2010. 162 NAPF members responded.

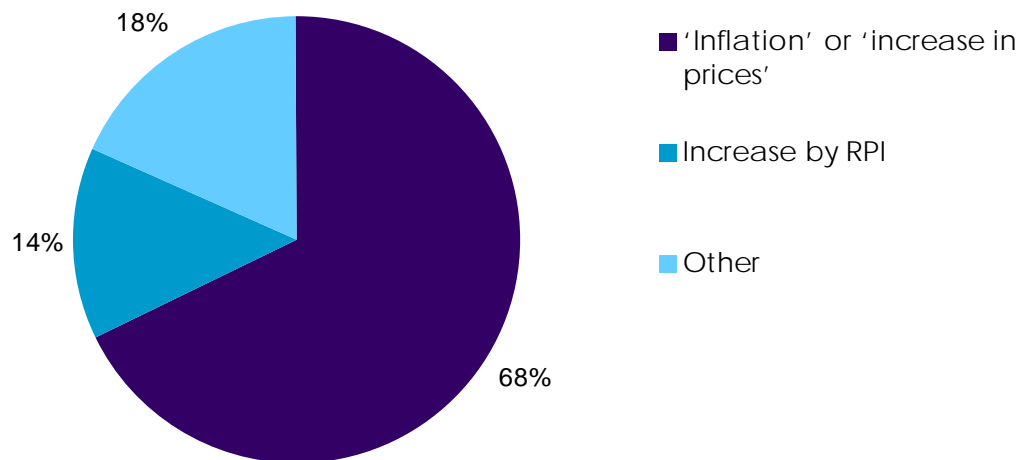
In addition to answering a number of specific questions, members were also invited to supply comments, a selection of which is highlighted below. These underline one of the key factors in the current CPI debate – the sheer variety and complexity of pension scheme rules.

Scheme rules on Indexation

It has been widely assumed that many schemes will not immediately be able to make the switch to CPI because they have another specific measure of inflation (typically RPI) written to their rules.

The NAPF survey shows that 68% of schemes have RPI written into their scheme rules on indexation. 14% follow 'statutory requirements' or the increase used for public sector pensions. 18% gave details of 'other' arrangements'.

Figure 1: What do your scheme rules say about the way in which pensions in payment should be increased?



Base: 158 respondents

NAPF member comments on indexation

"As a multi employer scheme we have a mixture of specific reference to RPI and to statutory requirements."

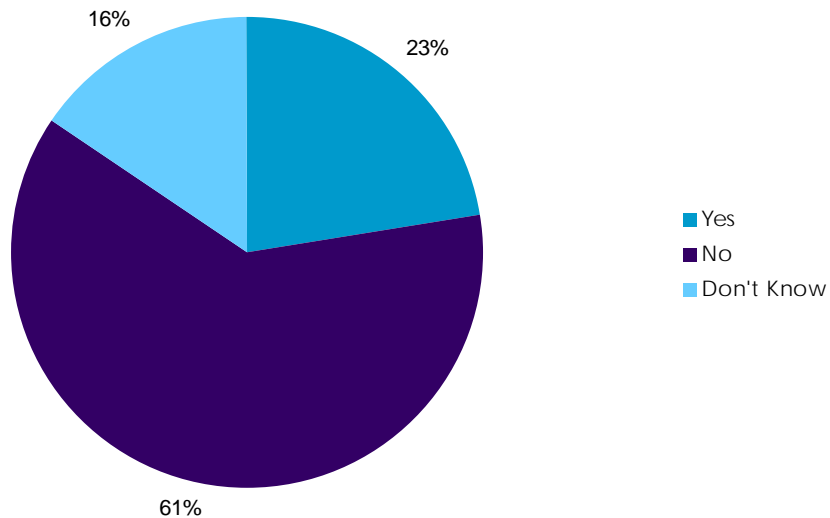
"A mixture of RPI and in line with statutory requirements - varies with history and different tranches of benefit. The vast majority of the liabilities are linked to RPI wording."

"Increase by RPI subject to a cap. In one of our schemes the LPI cap is 5% / 3.5% rather than 5%/ 2.5%".

"Increase for some members is RPI. Increase for majority is in line with increase under pension increase order."

We then asked whether schemes would be *able* to make the switch to CPI indexation. As the chart below shows, 61% of schemes say their rules would *not* permit them to make this change:

Figure 2: Do your scheme rules permit you to switch to CPI?

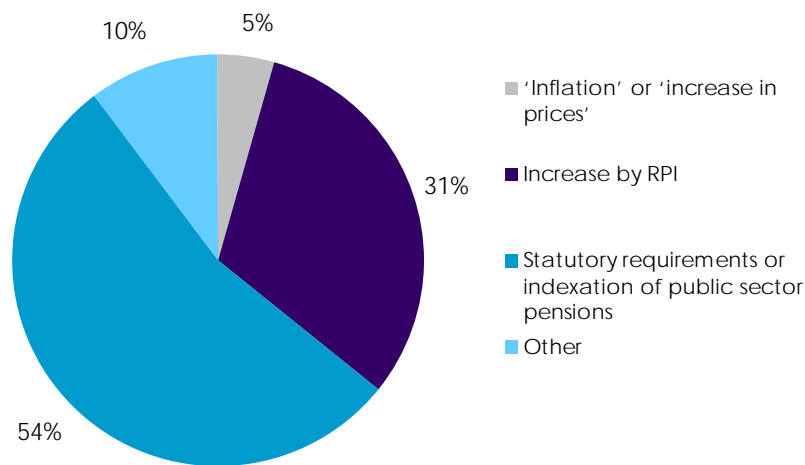


Base: 160 respondents

Scheme rules on revaluation

The picture for revaluation of deferred pensions is quite different. More than half of schemes - 54% - follow 'statutory requirements' or the approach used for public sector pensions. Only 31% have rules that specify RPI.

Figure 3: What do your scheme rules say about the way in which pensions in deferment should be revalued?



Base: 157 respondents

NAPF member comments on revaluation

"Our scheme has 2 sections. One revalues by RPI up to 5%, the other in line with statute."

"Rules are silent so revaluation in line with statutory requirement."

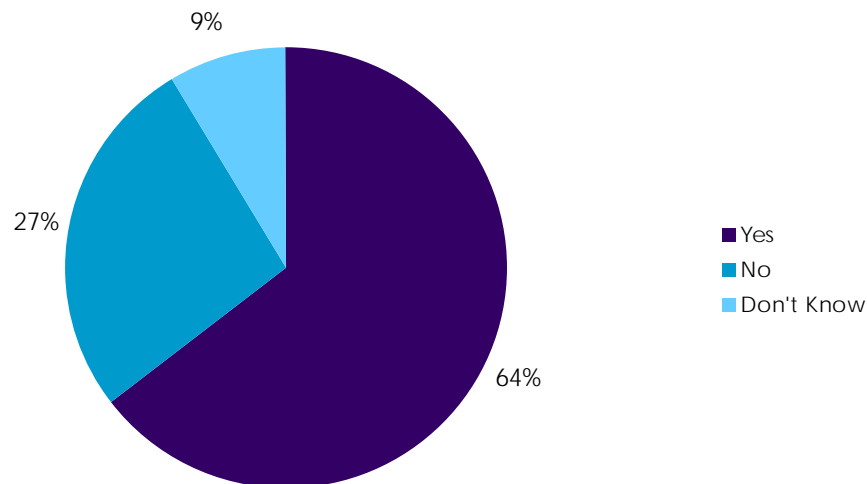
"We have three schemes with numerous sections, some RPI but where trustees have the power to select an alternative index if they believe it to be more appropriate but majority revalue in line with statutory requirements."

Government legislation to help schemes make the CPI switch

As the results above demonstrate, many schemes will be unable to make the CPI switch without some form of Government assistance. It is understood that DWP are considering providing such overriding legislation, probably in the form of an ‘amending power’ that schemes could choose to use if they so wish.

The NAPF survey shows that 64% of respondents say the Government *should* provide legislation that enables schemes that have RPI indexation written into their rules to switch to CPI.

Figure 4: Do you think the Government should provide legislation allowing schemes that have RPI written into their rules to use CPI instead?



Base: 160 respondents

NAPF member comments on need for legislative assistance

"Flexibility to move to CPI would be generally welcomed."

"Every scheme should have an individual right rather than the Government being prescriptive."

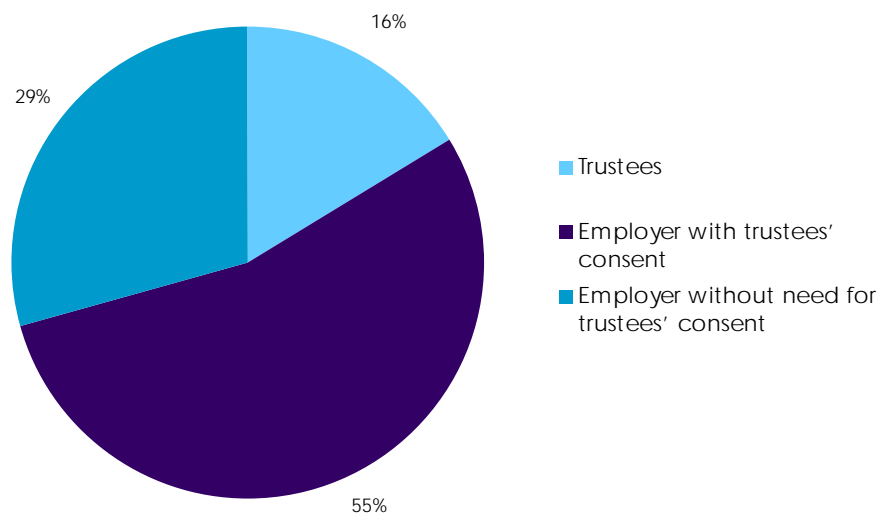
"Any help in keeping lid on liabilities is welcome."

"Absolutely not. This is the thin end of a wedge that would allow Government to change any scheme rule it liked to the detriment of members. Incidentally, this change will not prolong the life of DB schemes or make them materially more affordable."

Providing legislative assistance for the CPI switch is one thing. Deciding who should be able to use it is another.

When asked who should be able to make use of such legislation, 55% of our respondents said this should be a matter for the employer acting *with* the trustees' consent. 29% said it should be the employer *without* the need for trustees' consent. 16% said it should be a matter for the trustees alone.

Figure 5: Who should be able to make use of legislation allowing schemes that have RPI written into their rules to use CPI instead?



Base: 146 respondents

NAPF member comments on employer or trustee decision

"I think the Trustees and Employers should have the ability to discuss and decide the best way forward for their scheme, depending upon funding levels, savings etc."

"If the legislation requires trustee consent then we think very few trustees would feel able to make this change."

"The scheme ought to reflect a negotiation between the members, the trustees, the employer, and the actuary. We don't want government coming down on one side or the other for party political reasons."

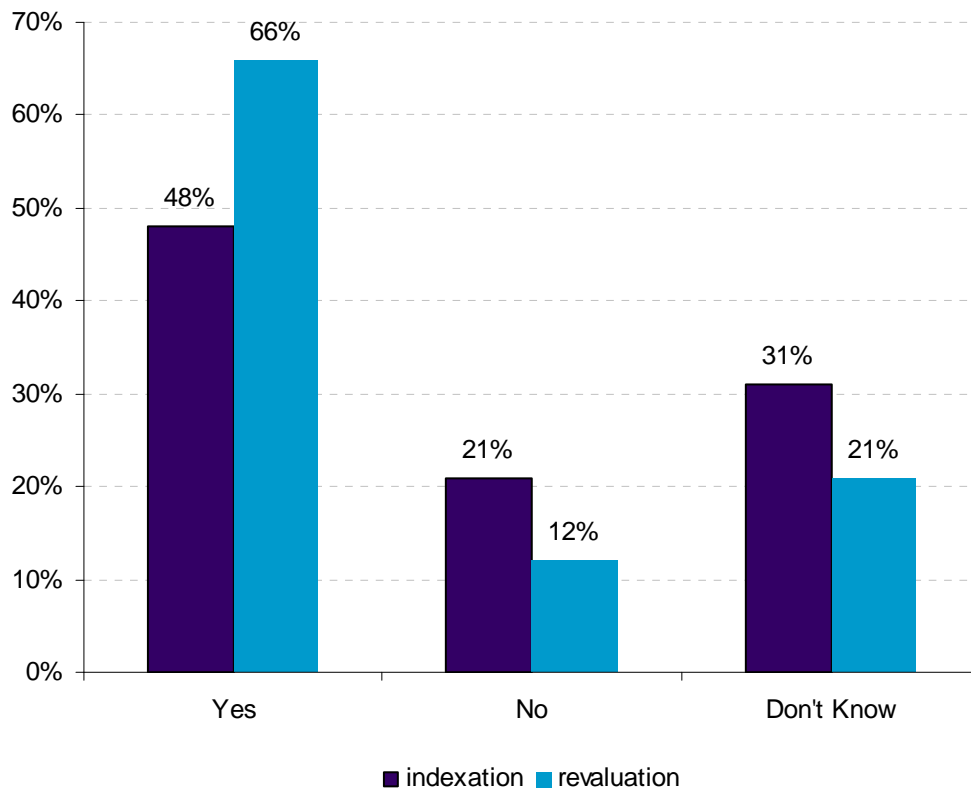
Demand for legislation

There is still a wide range of views on whether NAPF members would make use of legislation to help schemes change their rules.

In practice, much will depend on the precise form of the legislation; this is undoubtedly why 31% of respondents are in the 'don't know' camp in relation to indexation. However, almost half of respondents – 48% - said they *would* make use of such legislation for indexation purposes.

The situation looks more straightforward for revaluation, where 66% said they *would* use such legislation and only 21% were 'don't knows'.

Figure 6: If the Government provides the necessary legislation, would you expect to make the switch to CPI for (i) indexation and (ii) revaluation of pensions in deferment?



Base: 157 respondents for indexation, 155 for revaluation

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