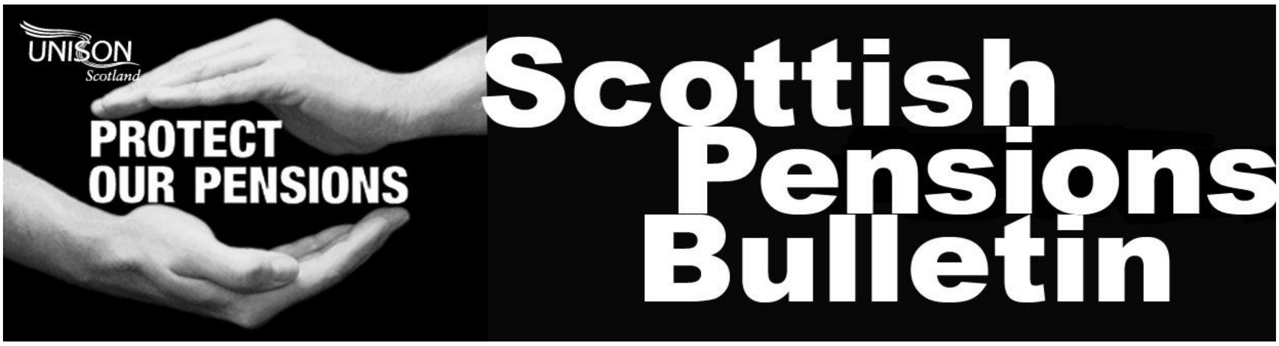

No.18 **December 2010**

Indexing of Pension Benefits

As reported in the last Scottish Pensions Bulletin the UK Government has announced that it will change the indexing of pension increases each year from the Retail Price Index (RPI) to the Consumer Price Index (CPI). This will apply to all pension schemes, including public sector schemes in Scotland, because this is a reserved power to Westminster. However, the Scottish LGPS regulations also have references to the RPI that will need to be amended.

The effect of the change is likely to result to a cut in pension benefits because the CPI is historically lower than the RPI. The CPI is generally 0.8% per annum less. The Hutton review calculated that this change could cut pension benefits by at least 15%.

This change will impact on future pensions, but also retired members in receipt of public service pensions. This is the first time in recent years that a pension reform has cut benefits for those who had already completed their pension contributions. If this was a commercial contract you could sue the provider for breach of contract!

Scottish Labour MP, John Robertson has tabled an Early Day Motion (EDM 1032) as follows:

That this House notes the Government's proposal to use the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) for the price indexation of benefits, tax credits and public service pensions; further notes that the CPI is consistently lower than the RPI; expresses concern over the impact that this will have on the incomes of pensioners and other vulnerable groups; recognises the concerns held by the Royal Statistical Society and the UK Statistics Authority that CPI excludes many housing costs which are borne by the majority of pensioner households; and calls on the Government to take these concerns into account and postpone the change from RPI to CPI until the appropriateness of CPI as a measure of price increases borne by pensioner households can be fully evaluated.

Branches should encourage members to support this EDM by writing to their MP. A template letter is available on the UK UNISON pensions website at:
http://www.unison.org.uk/pensions/pages_view.asp?did=12156

UNISON's position is that the CPI is an inadequate measure of inflation and there should be a special index for pensions that is weighted on essential costs like energy, food and care cost increases. Debt is also an issue for pensioners, so interest rates are important for them as well. Equally the effect of interest rate cuts on the income of the retired should also be taken into account.

In Scotland the Scottish Public Pensions Agency (SPPA) has circulated a consultation letter on what they regard as consequential changes in the Scottish LGPS as a result of the UK Government's change from the RPI to the CPI.

The letter consults on two amendments to the LGPS. One covers the indexing of Councillors pensions, so branches may wish to bring this to the attention of their elected members!

The second covers the LG Administration Regulations 2008 – Schedule 1 Interpretation – definition of “indexing”. The current definition is “..indexing in accordance with the Government Index of Retail Prices”. They intend to change this to read “..indexing in accordance with the Pensions Increase Act.” They claim the changes being drafted will “reflect the need to apply CPI from 4 April 2011.” This letter commences the consultation on the proposed changes to the scheme outlined above. The regulatory amendments are currently being prepared as part of this consultation and will be issued as soon as possible but no later than 23 December 2010.

We have responded to the SPPA indicating that we do not believe there is a ‘need’ to change the Scottish regulations and we will be raising this at the next meeting of SLOGPAG. The case against the change is just as relevant in Scotland as in the rest of the UK, arguably stronger given the higher level of poverty.

The consultation closes on 7 January 2011 and we will advise branches on any further opportunities to lobby on this issue after then.

UPDATE

UK Pensions Minister Steve Webb has announced today (8 Dec) that he would not force private sector pension schemes to make the change from RPI to CPI that he has imposed on state and public sector pension schemes. He told the World at One programme on BBC Radio 4:

"We think that if the scheme rules say your pension is protected by the RPI then that should continue to be the case. Because we want people to have confidence and trust in their pensions we will not be re-writing the rules of their pension schemes. If you joined a pension scheme, [and] when you joined it the rules said that your pension would be protected by the RPI, and the scheme does not currently have the power to change its rules, we are not going to change that."

This reasoning describes exactly the position our members in public sector schemes are in. The current rules say RPI, yet the UK Government is proposing to rewrite the rules after members joined the scheme. This appears to be a case of blatant double standards and this should be reflected in letters to MPs.

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