

1. I've read that M&S, BTPS and Ford plan to challenge the government regarding the decision to effectively replace RPI with CPIH. What does this mean?

On the 25 November 2020, HM Treasury and UK Statistics Authority (the UKSA) announced the UKSA's decision to effectively replace the Retail Price Index (RPI) with the Consumer Price Index (CPIH). Following input from HM Treasury, this is proposed to take effect from 2030.

The announcement was in response to a consultation which asked for views on potential changes to the RPI methodology and when any such changes should be introduced. The response also confirmed that the government would not be offering any compensation to the holders of new style index-linked gilts (those issued from 2002).

The Trustees of the Marks and Spencer Pension Scheme, BT Pension Scheme and Ford Pension Schemes have announced that they have applied for a judicial review of the decision to replace RPI with CPIH from 2030.

Under the current Scheme Rules, members have their annual pension increases calculated with reference to RPI. Effectively replacing RPI with CPIH would mean lower pension increases from 2030 because CPIH is typically lower than RPI by around 1% per annum.

In addition, to help manage inflation risk and volatility, the Scheme holds a proportion of its assets in Index Linked Gilts and other assets that have returns based on RPI. Whilst the Scheme remains well funded, the impact on pension scheme asset values as a result of these reforms will be significant.

2. What are the Trustee hoping to achieve?

The purpose of a judicial review is to review and challenge the process and any related decision made by a public body to ensure it is fair and lawful.

3. Why are these Schemes submitting a claim?

These decisions have significant implications for Defined Benefit (DB) pension schemes and their members with RPI linked benefits who will see the value of their pensions eroded relative to what they might otherwise have been, as RPI has tended to be about 1% higher than CPIH.

The reform also significantly reduces the value of RPI-linked assets held to meet pension promises, weakening schemes' funding positions, adding additional pressure on sponsors and potentially reducing the security of members' benefits.

4. Why would members see their benefits reduced?

Under the Scheme Rules, an element of members pension is increased by RPI annually.

Due to differences in the way RPI and CPIH are calculated, RPI has historically been higher than CPIH. Whilst the difference between RPI and CPIH varies each year, over the long-term we might expect RPI to increase by around 1% per year more than CPIH.

This means that from 2030 members will see a lower annual pension increase than they would otherwise have expected.

5. Why is the government looking to get rid of RPI as a measure of inflation?

The UKSA's proposal to abandon RPI is the culmination of several reviews since 2011. The UKSA highlighted flaws in the RPI index which relate to the formula used to calculate inflation. These flaws resulted in RPI inflating quicker than CPIH, by around 1% more per year on average. CPI and CPIH generally inflate at a similar rate over time.

6. How much would a member lose?

It's difficult to say what the overall effect will be for an individual member as it will depend on a number of factors such as age at the date the change is introduced, gender, starting level of pension and the split between Scheme pension and Guaranteed Minimum Pension (annual increases to Guaranteed Minimum Pension are calculated using CPI and not RPI).

7. What happens if the case is successful?

If the case is successful, it could have a material impact on the value of index-linked gilt holdings within the Scheme and member benefits. However, the outcome of the case is not likely to be known for some time.

8. What are the next steps?

Following filing of the claim with the Court, the claim form and supporting material will be served to the UKSA and the Chancellor after which the UKSA and the Chancellor have 21 days to acknowledge service of the claim and respond. The Court will then decide whether permission is given for the claim to proceed to a full hearing (in whole or part).

9. When will a final decision be reached?

The outcome of the case is not likely to be known for some time.