FINAL
9 APRIL 2021

MSCC RPI MEMBER Q&A

Background
This Q&A will be used by MSCC to help answer any member calls regarding the application for a judicial review.

Statement
This statement will be on btpensions.net.

Trustees of the BT Pension Scheme, Ford Pension Schemes and Marks and Spencer Pension Scheme to seek Judicial Review of the decision effectively to replace RPI with CPIH from 2030

The trustees of the BT Pension Scheme, Ford Pension Schemes and Marks and Spencer Pension Scheme ("the Schemes") today announced that they are seeking a judicial review of the decision effectively to replace RPI with CPIH from 2030.

The Trustees of these defined benefit schemes, which represent nearly 450,000 members and £83bn of assets, believe the far-reaching implications of this decision has not been fully considered.

It is estimated that over 10 million pensioners*, through no fault of their own, will be poorer in retirement either from lower payments or lower transfer values as a result of the effective replacement of RPI with CPIH. Women will suffer the most from this change as they typically live longer.

The reform also significantly reduces the value of RPI-linked assets held to meet pension promises to members, weakening schemes' funding positions and, in turn, adding pressure on sponsoring employers.

The decision to pursue action has not been taken lightly, but the Schemes believe that a judicial review is necessary to protect scheme members and scheme assets from the detrimental effects of this decision.

-Ends-

Notes to editors

***Estimate from Insight Investment.**

The Trustees of these defined benefit schemes together represent £83bn of assets and 448,768 members.

- BTPS - £57.0bn AUM | 280,000 members
- Ford - £14.6bn AUM | 58,763 members
- M&S - £11.4bn AUM | 110,000 members

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

Last year, the Government and the UK Statistics Authority consulted on their proposal to effectively replace RPI with CPIH, with the change happening sometime between 2025 and 2030.

On November 25th 2020, the government announced that this change would happen in 2030.

Under the Scheme Rules, members of Section A and B currently have their pension increases calculated with reference to CPI, whilst those in Section C currently have their pension increases calculated with reference to RPI.

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

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. More details can be found on the news section of the website.

2. **Why would members in Section C see their benefits reduced when RPI is effectively replaced with CPIH?**

Last year, the Government and the UK Statistics Authority consulted on their proposal to reform RPI to effectively replace it with CPIH, with the change happening sometime between 2025 and 2030. On November 25th 2020, the government announced that this change would happen in 2030.

Under the Scheme Rules, members of Section A and B currently have their pension increases calculated with reference to CPI, whilst those in Section C currently have their pension increases calculated with reference to RPI.

Due to differences in the way RPI and CPI/CPIH are calculated, RPI has historically inflated more quickly than CPI and CPIH. Whilst the difference between RPI and CPI/CPIH varies each year, over the long-term we might expect RPI to increase by around 1% per year higher than CPI/CPIH. In 2030, the UKSA plan to change RPI to align it with CPIH. This means that from this date members in in Section C will see their benefits increase more slowly than they would otherwise have expected, resulting in a lower overall benefit than they would have received without the change.

3. **Does this affect members in Section A and B?**

No. This change will not impact members of Section A and B because members of Section A and B currently have their pensions increased with reference to CPI and not RPI. The announcement relates to changes being made to RPI. Members of Section A and B will continue to have their pension increases calculated with reference to CPI.

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

The UKSA's decision to reform 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, and issues with the way RPI calculates increases in clothing prices. These flaws resulted in RPI inflating more quickly than CPI and CPIH, by around 1% higher per year on average. CPI and CPIH generally inflate at a similar rate over time.

5. **How much would a Section C 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 that date the reform is introduced, gender, starting level of pension.

6. **The Times has previously reported that members will be £34,000 worse off as a result of this reform is this true?**

Firstly, this only affects members in Section C, there's no change for Sections A and B. The reform is being introduced in 2030 so up until then, members in Section C will continue to have their benefits uprated with reference to RPI. We know this is an important issue for our members so BTPS along with M&S and Ford pension schemes have asked for a judicial review of this decision – more information is available on the website.

In 2030, the UKSA will change RPI to align it with CPIH. Whilst the difference between RPI and CPI/CPIH varies each year, over the long-term we might expect RPI to increase by around 1% per year higher than CPI/CPIH.

This means that from 2030 members in in Section C will see their benefits increase more slowly than they would otherwise have expected, resulting in a lower overall benefit over their lifetime than they would have received without the change.

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 their age at that date the reform is introduced, starting level of pension and gender.

7. **What are the next steps with the judicial review?**

Following filing of the claim with the Court, the Chancellor and UK Statistics Authority 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. We'll keep members updated on the website.