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"Uncertainty around future pensioner income could be addressed through the use of household cost indices." says Pensions Policy Institute

The Pensions Policy Institute (PPI) is today publishing **Briefing Note 133: How does high inflation impact pension schemes and their members, and how might inflation change in the future?,** which investigates the impact of inflation and cost increases on DB pension schemes and pensioners, and sets out the Government's plans for indexation over the next few years. This Briefing Note is kindly funded by Insight Investment.

Daniela Silcock, Head of Policy Research at the PPI said "Increases in the cost-of-living have hit pensioners hard, especially those on lower incomes. Pensioners in Defined Benefit (DB) schemes may be hit particularly hard as many schemes cap benefits at around 5% or below. That means that when the Retail or Consumer Price indices (depending on which the scheme uses) breach 5%, as Retail Price Index (RPI) did from October 2021, pensioner benefits will not keep pace with all cost increases."

"Future changes to the RPI will also affect some members of DB schemes. From 2030 the methods and data of the Consumer Price Index (CPI) will be brought into the RPI meaning it will rise more slowly than previously. RPI has typically increased around 1% faster than CPI per annum, but during recent spikes in inflation, the difference has increased to almost 3% (May 2022). Private sector DB scheme members who have benefits increased in line with RPI growth, around 64%, will receive benefit increases of around 1% less after 2030 than they would have without system change, but the extent of the loss could increase during times of high inflation. These changes will also affect the funding position of some schemes, which may affect members in the long term. A recent application by a group of pension trustees for a judicial review of the decision to make this change was rejected in September 2022."

"Economic changes such as those we are currently undergoing, mean that pensioners have less certainty about how their current and future income will meet living costs. There are already signs that pensioners are and will continue to struggle to meet day-to-day needs. One potential solution is to explore whether state and private pensioner benefits should be linked to the Household Cost Index for retired people, which specifically measures changes in the prices of goods and services used by retired people. On a positive note, in the future, most indices will rise at a similar rate, meaning there should be fewer financial difficulties for people arising from prices and income increasing at different rates."

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Notes for editors:

1. **We are an independent educational research charity: The Pensions Policy Institute (PPI)** does not lobby for any particular solution, and we are not a think-tank taking politically influenced views. The PPI is an educational research charity, and have been providing non-political, independent comment and analysis on pensions policy and retirement income provision in the UK for over 20 years. Our aim is to improve information and understanding about pensions policy and retirement income provision through research and analysis, discussion, and publication. For news and other information about The PPI please visit www.pensionspolicyinstitute.org.uk

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2. This project has been sponsored by **Insight Investment.** Sponsorship has been given to help fund the research, and does not necessarily imply agreement with, or support for, the analysis or findings from the project.

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