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“Women and younger pensioners will experience the greatest reduction in overall pension income as a result of index changes” says Pensions Policy Institute

The Pensions Policy Institute (PPI) is today publishing *How could changes to price indices affect Defined Benefit schemes?* This Briefing Note, sponsored by the **BT Pension Scheme (BTPS)**, explores the implications of the Government’s proposed reforms to RPI on Defined Benefit pension scheme members, investments, liabilities and funding positions.



Daniela Silcock, Head of Policy Research at the PPI said *“The Government will reform the Retail Prices Index (RPI) to align it with the Consumer Prices Index + housing costs (CPIH) methodology between 2025 and 2030, due to flaws in RPI methodology. This reform will affect any holders of assets which have a value or return affected by RPI, in particular, Defined Benefit (DB) pension schemes, many of which are heavily invested in RPI-linked gilts and other assets and scheme members whose benefits are revalued and/or uprated by RPI.”*

“As CPIH inflates more slowly than RPI, schemes invested in gilts will experience a drop in overall scheme assets of around £17m per £100m invested, if the reform is introduced in 2025 and around £13m per £100m if the reform is introduced in 2030. Private sector DB schemes collectively have around £470bn invested in index-linked gilts and could experience an overall reduction in asset value of between £60bn and £80bn depending on when the reform is introduced. Schemes will experience a further decrease in asset value in relation to inflation swaps and other assets with RPI related values and returns. These effects will reduce funding levels for most schemes, though schemes which inflate benefits by RPI will experience some reduction in liabilities that will compensate for some (or all) of the loss in asset value. The overall effect on a scheme will depend on how much they have invested in RPI linked assets and their level of RPI-linked liabilities.”

“Members whose schemes inflate benefits by RPI could receive up to 9% less overall from their DB pension, an average drop for women (aged 65 in 2020) of around £158,000 to £144,000 over their lifetime, if the reform is introduced in 2025. Women and younger pensioners will experience the greatest reduction as women live longer than men, on

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average, and younger pensioners will experience a compounding effect. Older pensioners on low incomes will also struggle with a reduction in benefits as they have less opportunity to make up income deficits than younger members."

"Mitigating measures could reduce the negative impact on schemes and their members and allow the proposed change to happen without creating winners and losers."

~~ ENDS ~~

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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, which provides non-political, independent comment and analysis on policy on pensions and retirement income provision in the UK. Its aim is to improve the information and understanding about pensions policy and retirement income provision through research and analysis, discussion and publication. Further information on the PPI is available on our website www.pensionspolicyinstitute.org.uk.
2. This report has been kindly sponsored by **the BT Pension Scheme**. 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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