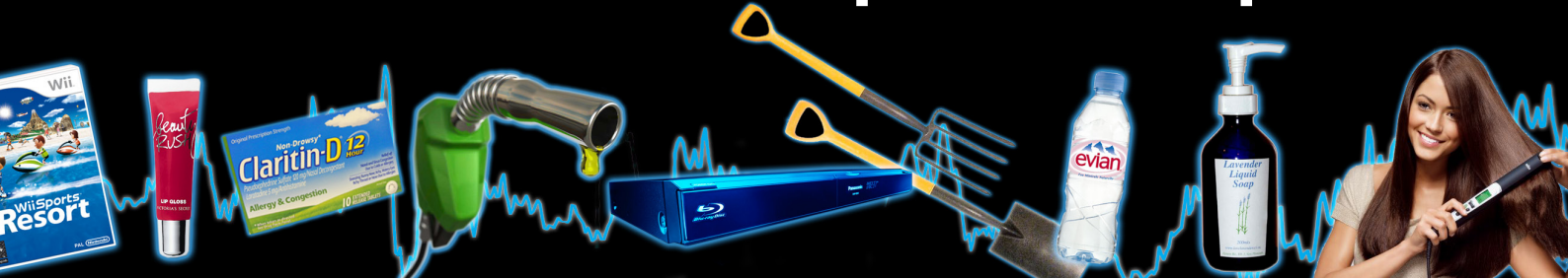


New inflation measure for public sector pensions



You may have seen in the recent Budget that the Government is changing the way public sector pensions are increased each April. Traditionally, the increase has been based on the change in the Retail Prices Index (RPI), but from April 2011 the increase will be based on changes in the Consumer Prices Index (the CPI). The changes will affect how deferred benefits are revalued in future and how pensions in payment are increased.

How are RPI & CPI calculated?

In calculating both these measures of inflation, the prices of hundreds of items up and down the country are measured - everything from lip gloss to fuel to computer games. There are many similarities between the 'baskets of goods' looked at for both RPI and CPI, but there are some differences in what is taken into account and in other factors. Here's what the National Statistics' guide has to say:

The CPI uses essentially the same basic price data as the RPI but differs from it in some important respects. The differences include:

- **The goods and services covered by the index:** For instance, CPI does not include Council Tax and a number of housing costs faced by homeowners. But there are also some services covered by CPI - such as charges for financial services - which are not in RPI
- **The people whose expenditure is covered:** CPI covers a broader population than RPI
- **The mathematical formulae used to calculate the price changes:** In practice this means that CPI generally shows a lower inflation rate than RPI for given price data
- **The way in which the goods and services are classified:** The CPI structure follows international definitions while RPI has its own specific structure.

So why the change from RPI to CPI?

According to the Government's Budget Report:

"CPI is a more appropriate measure of benefits and pension recipients' experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright..."

Over the long-term, the CPI tends to have smaller increases than the RPI.

How will members be affected?

Our initial understanding of the impact for different types of member is as follows:

Pensioners: From April 2011 increases will be based on CPI. Previous increases are not affected.

Deferred members: Deferred benefits will be revalued in line with the RPI, up to and including the April 2010 pensions increase. From April 2011 onwards, increases will be linked to CPI.

Active members: No change to the way benefits build up, but once in payment, they will increase in line with the CPI. It's also possible that the change will reduce outward transfer values for members leaving GMPF, and that the cost of *buying extra pension* will fall, but we are awaiting guidance from the Government on both these.

Can GMPF ignore the change, and carry on applying RPI?

No - we are bound by law to increase pensions as instructed by the Government. We have no discretion to pay either more or less.

For more information

Both the RPI and the CPI are calculated by National Statistics, and these are explained on their website [here](#).

