The Trustee's response to the Office of National Statistics (ONS) Consultation on the basis of calculating the Retail Prices Index

ICI PENSION FUND

As you may be aware, the Office of National Statistics is consulting on proposals to change the basis on which the Retail Prices Index (RPI) is calculated, broadly to bring it more in line with the Consumer Prices Index (CPI). Historically CPI tends to be lower than RPI. This means that if the proposed changes in the calculation of RPI are adopted, the annual increase in members' pensions which is based on RPI may be lower in future.

Given this potential impact on members' benefits, the Trustee has made the following submission to the Office of National Statistics:

> 'As the Trustees of the ICI Pension Fund (the Fund) we would like to take the opportunity to set out the view of a UK defined benefit pension scheme on the potential changes to the way that the Retail Price Index (RPI) is calculated. As you may be aware, ICI Pension Fund is one of the UK's larger pension schemes with some 65,000 members including some 33,000 pensioners. On average the pensions payable from the Fund are relatively modest. For example, based on the latest data we have available, the average 60 year old male pensioner receives a pension from the Fund of approximately £12,000 per annum.
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> Whilst we fully acknowledge the benefits to the exchequer of aligning RPI more closely with CPI and the Government's responsibility to address the UK's pressing economic challenges, nonetheless we would like to highlight the significant impact of the potential changes on ICI pensioners, amongst others. It is clear that pensioners will bear the brunt of the changes.
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> We note that any change could be expected to reduce the long-term rate of RPI inflation, leading to lower pension increases where these remain linked to RPI inflation. ICI Pension Fund's actuaries have developed some indicative figures to illustrate the potential effect of a reduction in the long-term rate of RPI inflation on the benefits payable to Fund members. As it is estimated that the effect of adopting one of the options would be to reduce future RPI inflation by between 0% and 1% per annum, we have assumed that RPI inflation would be 0.5% per annum lower as a result of any changes.
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> We have considered the impact of the changes in the construction of the RPI over time on the amounts of pension payable to the average 65 year old male and 60 year old female Fund pensioners. Our figures illustrate that the value of the pension for both examples would be reduced by around 5% of the total value.
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> For current deferred pensioners, a reduction in RPI would also reduce the initial pension payable from normal pension age. For example a current 52 year old deferred pensioner would see a reduction in the pension payable from age 62 of around 5% if RPI inflation was 0.5% per annum lower as a result of the changes over this period. Compounding this effect with the reduction in post-retirement pension, the estimated loss in value of pension rights for such an individual is around 10%.

Our assessment, based on the latest data we have available, demonstrates that a reduction in RPI of 0.5% would have a significant impact on the following relatively modest pensions:

- The average 65 year old male pensioner receives a pension from the Fund of approximately £13,300 per annum – this would reduce the value of his benefits by 5%
- The average 60 year old female pensioner receives a pension from the Fund of approximately £5,800 per annum – this would reduce the value of her benefits by 5%
- The average 60 year old male pensioner receives a pension from the Fund of approximately £12,000 per annum – this would reduce the value of his benefits by around 5%
- The average 52 year old deferred pensioner would see a reduction in the value of their benefit of around 10%

We urge the National Statistician, and the ONS, to seriously consider the detrimental effect of the potential changes upon the quality of life of thousands of pensioners who live on modest pensions. We are particularly concerned about adverse impact upon women as it is understood that women already face a tougher retirement with pension pots worth just two-thirds (67%) of their male counterparts, due to lower salaries and lower employee contributions towards retirement.’