News alert

Retail Prices Index to be aligned with Consumer Prices Index (including housing costs) from 2030

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The Treasury recently announced it will change the way the Retail Prices Index (RPI) is calculated. From 2030 it will transition to use the same method as CPIH. CPIH is the Consumer Prices Index with an allowance for housing costs.

This note explains more about the reasons behind the change and what it means for:

- members' pensions,
- employers, and,
- us, as the Pensions Board.

We will keep you updated with any developments. If you have any questions or concerns, please contact us.

Why is the change happening?

RPI is the oldest inflation measure in the UK and is still widely used across the economy. It is written into many financial contracts and rules. The Consumer Prices Index (CPI) replaced RPI in 2003 as the UK's official inflation measure due to a belief that RPI is flawed. Since then, there has been a long debate about RPI because it still widely used.

CPIH was launched in 2013, and at the same time RPI lost its status as a National Statistic.

What is wrong with RPI?

The problem with RPI is the way it averages the goods, products and services it measures. The current method can exaggerate price rises, especially if something is on sale at a discounted price and returns to its normal price later. CPIH uses a better way of averaging goods and services than RPI. Because of this, CPIH has been on average 1% lower than RPI each year since 2013.

What changes have already happened to pensions?

State pensions and most social security benefits switched from RPI to CPI in 2010. Public sector pensions and many private sector pensions followed the year after. Many defined benefit pensions outside the public sector still use RPI if it is written into their pension increase rules.

Why CPIH and not CPI?

Both RPI and CPIH include the cost of living in a house which you own, unlike CPI. This is a cost many people are exposed to so CPIH is a more suitable inflation measure for most pension schemes.

When will RPI start to be calculated using the CPIH method?

The Treasury and the UK Statistics Authority have agreed the two methods will align between February 2030 and February 2031. CPIH is not replacing RPI. We still expect RPI to be published but it will be the same as CPIH from 2031.

How does this affect members' pensions?

Pensioners (post retirement pension increases)

All the pensions we pay are linked to RPI, expect for pre-1997 PB Classic pensions where increases are discretionary. From 2030 pension increases will effectively be in line with CPIH.

Deferred members (pre-retirement pension increases)

We increase deferred pensions in line with CPI for CEFPS, CAPF and the Defined Benefit Section of CWPF. Pre-retirement increases are discretionary in the Pension Builder sections of CWPF. This will not change.

Transfer values

When we work out a transfer value, we include how much we think your pension might increase by in the future. We are reviewing how this will impact transfer values.

How does this affect Church employers?

Employer's accounting disclosures

Each year we provide employers with a draft pension disclosure note to include in their accounts which shows the employer's pension liability. We work out this liability using a range of year-end assumptions. The long-term inflation assumption will change, but it is too early to say whether pension liabilities for accounting will increase or decrease, as the calculation includes other assumptions.

Scheme funding

Scheme funding is checking whether we have enough money (assets) to pay everyone's promised pension (liabilities). Our independent actuarial advisers run this check every three years. Part of this check includes looking at how much we expect pensions to increase in the long-term. We are reviewing how this impacts scheme funding.

How does this affect the Pensions Board?

Our investment strategy

As most of the pensions we pay are linked to RPI, our investment strategy involves partially hedging this risk. Historically we have held very few index-linked gilts, but we are reviewing the implications for our investment strategy.