



NEWSLETTER

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Dear Colleague

INDEX-LINKING OF PUBLIC SECTOR PENSIONS

The index-linking arrangements for public sector pensions are contained in the Pension (Increase) Act 1971. The Act says that each April public sector pensions shall be increased in line with the Retail Prices Index, as recorded for the previous September, so as to maintain their purchasing power. Following much media speculation about the future of the current arrangements, we sought clarification from the three main political parties about their intentions and we have received the following assurances.

At a meeting held on 30 March 2010, **Angela Eagle** said on behalf of the **Labour Party** *"Following the agreement for change reached with the unions in 2005, we are satisfied that public sector pensions are affordable, sustainable and fair. We have no plans to change the current index-linking arrangements."*

In a letter dated 12 April 2010, **Steve Webb** said on behalf of the **Liberal Democrats** *"We are very clear that all accrued rights should be honoured: a pension promise made should be a pension promise kept. Therefore we would not make any changes to pension rights that have already been built up. I have confirmed that I regard accrued index-linked rights as protected."*

In a letter dated 27 April 2010, **Philip Hammond** said on behalf of the **Conservatives** *"Indexation of pensions in payment is an established part of pensions legislation. The Conservative Party has no plans to change the current index-linking of public sector pensions in payment. We agree with the view that the right to indexation of pensions already accrued is part of the accrued pension rights and those rights will be protected. Our proposed £50,000 cap on public sector pension rights accrued was always intended to be a real-terms cap and therefore will be subject to indexation to reflect inflation. It would make no sense to express a long-term cap on pensions in nominal terms."*

Notwithstanding these assurances, yesterday's emergency Budget said the following:-

Indexation of benefits and tax credits

The Government will use the Consumer Prices Index (CPI) for the price indexation of benefits and tax credits from April 2011. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues.

State Pension

The Government will uprate the basic State Pension by a triple guarantee of the highest of earnings, prices or 2.5 per cent from April 2011. The CPI will be used as the measure of prices, consistent with the Government's decision to index all benefits and tax credits by the

CPI, although the basic State Pension will increase by at least the equivalent of the Retail Prices Index (RPI) in April 2011 to ensure its value is at least as generous as under previous uprating rules. The standard minimum income guarantee in Pension Credit will increase in April 2011 by the cash rise in a full basic State Pension.

It is possible, that the new Coalition Government will agree to honour the current index-linking arrangements for pensions already in payment. We will check that out with Ministers. But, in the light of the budget statement, it seems pretty clear that the Government intends to move from RPI to CPI index-linking for all public sector pensions. If they do, indeed, intend to move to CPI for pensions already in payment, their pre-General Election assurances were extremely duplicitous and we will do all we can to expose that.

The comparison of RPI/CPI September figures since 2000 has been as follows:-

RPI	+3.3%; +1.7%; +1.7%; +2.8%; +3.1%; +2.7%; +3.6%; +3.9%; +5.0%; -1.4%
CPI	+1.0%; +1.3%; +1.0%; +1.4%; +1.1%; +2.5%; +2.4%; +1.8%; +5.2%; +1.1%

Since CPI is usually well below RPI, a move to CPI could have a disastrous affect on our both public sector and state pensions.

We will be in touch with our Colleagues in the Public Service Pensioners' Council, the National Pensioners Convention and the public sector trade unions to discuss how best we might challenge the move.

We will keep you posted.

Yours sincerely

John Amos

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