

## Background

Please confirm you have read and understood this important background information.

Yes, I have read and understood the information on this page.

## About you

### 1 What is your name?

Name:

### 2 What is your email address?

Email:

### 3 What is your organisation?

Organisation:

Towers Watson

## Section one: Measuring prices across the economy

### 1 Should ONS identify a main measure of price change across the economy?

Not Answered

Why? Please provide comments.:

I am writing on behalf of Towers Watson, a global professional services firm with a particular strength in UK pensions. We advise employers, trustees of occupational pension schemes (including many of the UK's largest) and insurance companies. This response is narrowly focussed on the impact on existing pension liabilities and the ability to match those promises of any change to the main measure of inflation. We have not commented on the rationale for any particularly index. There are relatively few pension measures that specifically refer to CPI (some that do are the minimum increases for pensions in payment and the annual allowance requirements in Finance Act 2004). Further, there are a number of measures where the Secretary of State has discretion as to the inflation index to use and currently uses CPI. These include the requirements as to the minimum revaluation of pensions in deferment and the minimum increase in average salary benefits used to meet an employer's duties to provide benefits under a qualifying pension scheme. Our concern is that if the main measure of price inflation was to change from CPI to CPIH (or something else) then the above measures would change too. Many of these measures set out the statutory minimum, but schemes also have to comply with their scheme rules. These rules might specify the index that has to be used and so would not automatically switch from CPI to CPIH, say. This causes a problem as there is then a mismatch between the increases required under the rules and the minimum increases required under the legislation. Our plea, therefore, is that if the index is changed, sufficient notice is provided of the change and that pension legislation is amended so that there is not a difference between what schemes are required to do under their rules and under the legislation. Legislative change could follow the approach used when the index switched from RPI to CPI. As you are aware, there are already two inflation measures (RPI and CPI) which drive many pension benefits. Introducing a third would only make things more complicated. There is an increasing focus on investing to match liabilities within pensions. As part of this, the pensions industry would welcome the issuance of CPI-linked gilts - and, if another index was to be introduced as the main measure and as a yardstick for pensions, then gilts linked to that index too.

### 2 If you answered 'yes' to question 1a, then what should this measure be?

Not Answered

Why? Please provide comments.:

### 3. Should its production be governed by legislation?

Not Answered

Why? Please provide comments.:

## Section two: Measuring consumer price inflation for different household types

### 4 Should ONS seek to measure changes in prices as experienced by different households?

Not Answered

**Why? How often? Please provide comments.:**

**5 If yes, how should ONS seek to do so?**

Not Answered

**Why? Please provide comments.:**

### **Section three: The RPI**

**6 Do you use the following indices? (Please select those that you use)**

**If yes, for what purposes? Please provide comments.:**

We carried out a survey of our consultants in May 2014. At that point no scheme responded to say that they had switched to RPIJ. A number of schemes had looked into doing so, but had been advised by their lawyers that a switch was not possible. A couple of other schemes were interested in the idea, but were keeping a watching brief for now. As such, we are not aware of any schemes that use RPIJ.

We are also not aware of any schemes that use any of the other indices listed.

**7 Do you agree that the following indices should be discontinued? (Please select those that you suggest should be discontinued)**

**Why? Please provide comments.:**

**8 Do you have any views on what 'freezing' changes to the RPI should mean in practice?**

Yes

**Why? Please provide comments.:**

As mentioned in your consultation, RPI still features heavily in pensions legislation and is used for the uprating of many pensions in deferment and in payment as the index is hard-coded into the scheme rules. As such, RPI has a real cost for many employers in this country. We understand that the methodology is considered flawed, but within that constraint, our view is that the RPI must be kept sufficiently up-to-date to be a reasonable measure of inflation.

### **Additional information**

**Do you have any further comments relevant to this consultation?**

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### **User satisfaction**

**Overall, how satisfied were you with this online consultation service today?**

Very satisfied

**Please tell us if there are any specific areas for improvement, or if you have any other comments.:**