

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:

Association of British Airways Pensioners (ABAP)

Section one: Measuring prices across the economy

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

Yes

Why? Please provide comments.:

There is confusion, due to the range of 'inflation' or 'price change' measures and a tendency for the relevant authorities to 'shop' for the one that is best for them (eg CPI is used for state pensions (as part of the triple lock) but (the generally higher) RPI is used for rail fare increases and student loan interest).

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

Other (please provide details).

Why? Please provide comments.:

CPIH is better than CPI but it needs to be improved (eg to have a better method of measuring housing costs than "rental equivalence", also to include Council Tax). The UK Government has no direct control over CPI methodology, resulting in compromises that are ok if measuring difference in inflation across the European Union (the various EU HICPs) but not ok when measuring UK inflation (eg owner-occupied housing costs are left out of CPI due to no agreement across the EU on their measure).

Our pensions had been linked to RPI but are now linked to CPI. We have not seen the evidence that CPI is a better measure of our inflation than RPI and remain deeply concerned by the annual difference in RPI and CPI rises; currently CPI annual rises are around 1.0 percentage points below RPI annual rises. It is also unacceptable that, for example, our CPI-based pension rises take no account of owner-occupied housing costs.

Of the current indices, we prefer RPI. However, if RPI is now deemed unsuitable as a national statistic we would welcome the development of a Household Inflation Index.

3. Should its production be governed by legislation?

No

Why? Please provide comments.:

It is better that production is governed by an independent body. If governed by legislation, the index's methodology might not be modified quickly enough, when necessary.

Section two: Measuring consumer price inflation for different household types

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

Yes

Why? How often? Please provide comments.:

This is a lower priority though. We first need an overall Household Inflation Index that better reflects our cost of living than CPI

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

Using a payments-based approach.

Why? Please provide comments.:

A payments-based approach best reflects pensioners' expenditure

Section three: The RPI

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

RPI pensioner indices

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

If yes, for what purposes? Please provide comments.

BA pension rises followed RPI until 2011 when the switch was made by the trustees to CPI. BA Pension Trustees still aspire to provide (the usually higher) RPI rises in the future and had proposed a rise halfway between the relevant RPI and CPI rises in April 2015 for the Airline Pension Scheme. This has resulted in a court case between the BA Pension Trustees and British Airways owners IAG, to take place in early 2016.

Most BA pensioners would prefer the higher RPI rises; arguably some current BA workers would prefer the lower CPI rises (as that would slightly better protect the two pension schemes if RPI rises remain higher than CPI rises). However the Trustees had a solvency plan, just before 2010, which used future RPI rise assumptions and this was agreed by BA and its Pensions Trustees

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

Why? Please provide comments.:

The issue for BA (and probably other) pensioners is that RPI is currently rising about 1.0 percentage points a year higher than CPI. We accept RPI is probably flawed but have not seen CPI shown to be better. This increase in the average gap between CPI and RPI annually now being 1.0 percentage points, the reason for this gap being mostly the changes in the method of collecting clothing data, and this gap generally being bigger in UK than in most other countries, leads us to argue both RPI and CPI/CPIH should be discontinued to be replaced by an index that better addresses these accuracy problems.

To quantify the financial effect, consider someone on a BA pension that started in 2010 and is today worth £10,000 a year. If we use the historical differences between the RPI and CPI rises since 2010, and assume in future RPI annual rises are 1.0 percentage points more than CPI annual rises, and that RPI correctly measures inflation, then the loss in today's pounds for someone receiving that £10,000 per year pension for 20 years will be £18,000 (to the nearest £1,000).

Pensions can last much longer; smaller ones are payable to surviving spouses and children; the losses on the main £10,000 pension over 40 and 60 years are £71,000 and £151,000 respectively. Finally, one should note the proportional loss is bigger toward the end of the pensioner's life, when more money may well be required.

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

Yes

Why? Please provide comments.:

If RPI is flawed, it should not be used. We are not convinced it is flawed; there remain strong academic arguments in favour of RPI, over CPI, from Dr Mark Courtney and others. As RPI's use is embedded by legislation (eg for gilts), then either it should be replaced by a less flawed index (RPIJ, CPIH) or its methodology should be changed to remove the flaws

Section four: Evolving consumer price statistics

9 Are the priorities identified by ONS in its forward work plan appropriate?

No

Why? Please provide comments.:

We need an index, for example a Household Inflation Index, which better measures our inflation. In the meantime work should concentrate on reducing the "formula effect" difference between RPI and CPI

10 Should ONS include council tax in the CPIH?

Yes

Why? Please provide comments.:

Council Tax does not depend on income, so it should be included in CPIH.

Additional information

Do you have any further comments relevant to this consultation?

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

I am responding on behalf of ABAP, whose members comprise a significant proportion of the 95,000 members of the two British Airways pension schemes. I am happy for this response to be made public.

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.: