

Gov't rules out £90bn DB indexation cut

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The government has ruled out a move to reduce member benefits by £90 billion in defined benefit (DB) schemes through a lower inflation measure.

In last year's green paper on DB schemes the DWP proposed 'across the board' cuts to indexation for DB schemes, allowing them to move from the Retail Price Index (RPI) to the lower measure of Consumer Price Index (CPI) 'on the grounds of rationality and fairness'.

The basis of this possible reduction in indexation was that 73% of DB schemes index their post-1997 pension liabilities using RPI, while public sector and the state pension use CPI and it is 'argued that many scheme rules require RPI as a result of drafting decisions that pre-date the introduction of CPI'.

However in the government's [white paper](#) published today, the DWP ruled out a move to allow schemes to switch to a lower measure of inflation.

'Having carefully considered the financial impacts and the consultation responses we have concluded that we cannot accept any reduction in the value of member benefits and are therefore ruling out provision of a power for employers or trustees to change scheme rules so that schemes can apply inflation increases using CPI instead of RPI,' the government said.

‘Any across-the-board change would allow sponsoring employers to reduce their liabilities at members’ expense even if the employer had no difficulties in meeting their existing liabilities.’

The paper added it would not be practical to come to shared agreement on how pension benefit cuts could be used to increase wages of existing employees.

The DWP said if it did switch to CPI this could cut schemes liabilities by as much as £90 billion across all affected pension schemes. The government estimated that the affects of an inflation switch to CPI could amount to £12,000 over a member’s retirement income if the individual retired with £8,000 and CPI is at 2% and RPI at 3.2%.

Plans to punish companies and directors who ['shirk' pension responsibilities](#) were also included in the paper, as reported over the weekend.