



PRESS RELEASE

For immediate release: 7 December 2011

CPI/RPI gap will mean sponsors have more to gain and members more to lose says HamishWilson

HamishWilson, the specialist pensions adviser, has today said that the narrowing of the gap between CPI and RPI to 0.4% in the year to September 2011 (5.2% versus 5.6%) compared with the historical average of 0.7% could lull trustees and members into a false sense of security. The gap is likely to have a far greater impact on schemes in future than the pensions industry was expecting.

This follows the publication of a report by the Office for Budget Responsibility (OBR) last week which demonstrates that the 'wedge' between CPI and RPI will not only reach previous forecasts but exceed them. The OBR now forecasts the gap could be as high as 1.5% pa.

Gary Tansley, Senior Consultant at HamishWilson commented: "The OBR has raised the stakes in the unions' ongoing legal challenge against the Government switching indexation from RPI to CPI with the consequences for members being far more pronounced than first thought. What this could mean is that this year's 0.4% gap between CPI and RPI is simply the thin edge of the wedge with schemes/members and sponsors being much more greatly affected than they may have previously anticipated – in some cases more than double – with sponsors having more to gain and members more to lose.

"Even where DB schemes are already allowing for the change in statutory minimum revaluations and indexation, deficits may not be as bad as was thought and their funding plans may now be too cautious. They may also be paying out too much by way of cash equivalent transfer values. Sponsors could also benefit from another windfall gain in being able to report lower liabilities on their balance sheets whereas members, of course, will not see their pensions increasing as they may have expected.

“Importantly, on the political front, this will stoke the fire again between the unions and the Government with the OBR upping the ante in the unions' appeal against the High Court's ruling that the Government was acting lawfully when it decided to switch to using CPI as the basis of indexation for public sector schemes.”

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FOR EDITORS:

About HamishWilson

We are a boutique actuarial and pension consultancy providing fresh perspectives on all pension issues. We deliver advice on all aspects of pensions – not just on the “big issues” of benefit design, funding, investment strategy, transactions and accounting – but also the timely day-to-day care and problem-solving involved in any relationship.

Unlike other consultants, we don't start from the premise that a pre-determined solution is appropriate. We offer thoughts, ideas, concepts, approaches and challenge thinking; embracing your objectives for your schemes. We've seen how clients can be under-serviced or neglected in bigger consulting firms and are pleased to say our clients choose us because we are an excellent fit to their business. They know we have the commitment and expertise to meet their needs fully to the quality they expect and, crucially, they matter.

www.hamishwilson.com

Media contacts:

For all media enquiries please contact Kate Boyle using the details below.



Independent Consultant PR, Media and Events

> 07930 442 883

> www.kateboyle-pr.co.uk

kate@kateboyle-pr.co.uk