Corporate pensions news headlines

Week ending 6 September 2019

RPI to CPIH?

The Chancellor has announced plans for a consultation in January 2020 on aligning RPI with CPIH. This comes following the UK Statistics Authority's proposals (published this week but dated 4 March 2019) to reform RPI by bringing the methods of CPIH into it or to stop publication of RPI altogether (the Chancellor rejected the latter). The proposal to change the RPI requires the Chancellor's consent if it is to happen before 2030, but not after that time.

The consultation will ask if the change should be made before 2030 and, if so, when between 2025 and 2030. A response to the consultation from the Government and UK Statistics Authority will be published before the Spring Statement and the end of the current financial year. The Chancellor confirmed that new issuance of index-linked gilts will continue to be linked to RPI.

If this change to RPI happens, it would have two major impacts on DB schemes:

- all RPI-linked benefits would become less valuable (whilst the value of CPI-linked benefits would not change)
- the value of RPI linked gilts would also reduce.

For some schemes, this could mean a potentially material improvement in funding (depending on their existing level of hedging and, in particular, the form of indexation of their benefits). However, in the 24 hours after the announcement, the Bank of England's RPI inflation curve was down just 10 basis points at a 20 year duration, whilst index-linked gilt yields rose by 20 basis points at a 20 year duration. This suggests that markets are not giving too much attention to the possibility of RPI changing at the moment, and/or any impact of the announcement is simply being swamped by bigger yield moves linked to the House of Commons voting to block a no-deal Brexit.

Lower DC charges

A group of trustees have challenged their DC investment fund provider, Aegon, about their fund charges and won. Having completed a review of other providers in December 2018, the trustees asked Aegon to lower their charges for funds in the DC section of the Electricity North West Group of the Electricity Supply Pension Scheme. Aegon have agreed to reduce the charges on some of the funds with effect from this autumn.

GKN scheme splits

The largest of GKN's two DB plans has been split into four sections, allocated to separate divisions of the business, as revealed in the half year report of Melrose Industries. The plan had gross assets of £2,191 million and liabilities of £2,774 million on an accounting basis at 30 June 2019. This follows the take-over of the firm by the Melrose Group in 2018. The Group has paid its committed one-off £150 million contribution and is making ongoing annual contributions of £60 million to the two GKN plans. The Group has also made further contribution commitments to the plans in the event of sales of other parts of the business, which cease when the plans reach their funding targets.

Bath Actuarial Consulting Limited | Unit 13A | Church Farm Business Park | Corston | Bath | BA2 9AP

t +44 (0) 1225 481450 | **e** info@bathactuarial.com | **www.bathactuarial.com**

Registered Address: 37 Great Pulteney Street, Bath BA2 4DA | Company Registered in England & Wales Company No. 07975135