Where Are We On Pension Increases?

Inflation has eaten away at our Reuters pensions. Although price rises are now slowing, there is concern for the future, as the agreement to raise pensions by up to 2.5% comes up for renewal. Please see the latest PRG News Bulletin below.

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PRG News Bulletin – Nov 2023

In our first Bulletin issued last month on our new website we gave you the annual inflation figures for the year to September which are used as the base for our pension increase effective from January 2024. RPI was 8.9% and CPI 6.7%. RPI is typically used in company final salary plans like RPF and SPS. Our pension plans are unusual in not having fixed levels of annual increases written into the Rules but instead provide for the trustees to review the position on a regular basis and award increases with the agreement of the actuary. In a survey of FTSE 100 companies we carried out in 2005 our plans were the only ones not providing guaranteed annual increases under the Rules whilst the majority provided for RPI inflation capped at 5% per annum.

The position changed in April 1997 when the government introduced legislation requiring companies to provide minimum annual increases of inflation capped at 5%. This minimum rate now applies to pensions accrued from April 1997 to April 2005 with the cap being reduced in April 2005 to 2.5% for pensions accruing after that date. The legislation did not extend to pensions accrued before April

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1997 which continued to rely on the provision contained in the Rules. Increases apply to that part of the pension in excess of any Guaranteed Minimum Pension in payment in respect of service whilst contracted-out of the State Earnings Related Pension Scheme. There is no increase for GMPs accrued before April 1988 but for GMPs accrued after that date RPF/SPS are required to provide increases of CPI capped at 3% per annum. Any additional increases on these GMPs to keep them broadly in line with State Scheme pensions are paid by and through the State Scheme.

So what has this meant in practice? Well, until January 2002 all pensions in payment from RPF/SPS had been increased each year in line with RPI inflation. In 2003 no increases were provided for pre April1997 pensions (except for those aged over 75) on the grounds there were insufficient funds in RPF/SPS and we were told this was likely to be the case for the foreseeable future. The Company also said it was not prepared to provide additional funds to make up the shortfall as it had done before. No increases for pre April 1997 accrued pensions were paid in 2004,2005,2009 or 2011. A short term agreement with the company provided increases in 2006,2007 and 2008 and inflation was negative in 2010. Finally, in 2012 a 10 year agreement was signed by the trustees with the company, later extended by another 3 years, which comes to an end with the increase payable in January 2024. This provided for increases of RPI capped at 2.5% on pensions accrued before April 1997. During this time statutory minimum increases have been provided each year on pensions accrued after April 1997 as described above.

The annual pension increase payable effective January 2024 will therefore be 2.5% for pensions accrued before April 1997 and after April 2005 and 5% on pensions accrued between April 1997 and April 2005.These pensions being pensions in excess of any GMP in payment. GMPs accrued after April 1988 will increase by 3% with no increase on GMPs accrued before that date.

It will be clear from this that some pensioners have done better than others with their increases depending, as they do, on when the pensioner retired and the periods over

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which their pension accrued. When you try to calculate the ‘loss’ in value of a pension by comparing the actual current value relative to the value had the pension been increased in line with RPI inflation you get multiple variations in the answers. What is clear is that the older pensioners with all or most of their pensions accruing before April 1997 will have seen the greatest loss relative to inflation. We have calculated that a pensioner in receipt of a pension in January 2003 which had accrued wholly before April 1997 will have since that date up to January 2024 received increases totalling 46.7% compared to RPI inflation over the same period of 116.9%.

The position has been exacerbated for all pensioners in recent years by the high levels of inflation which we know is an issue facing trustees of all final salary plans at the present time. Our situation, though, is made worse by having the increase cap set at 2.5% a year on most of the pensions in payment which is less of an issue for other FTSE 100 companies where the cap is set at 5%.

The fact that RPF is now showing an actuarial surplus of assets over liabilities **provides strong support** to the discussions taking place between the trustees and LSEG around the issue of pension increases including a replacement for the agreement now coming to an end. There is an unwritten understanding that whatever is done for RPF will also apply to SPS.

For those of you who would like to read more about the statutory minimum pension increase provisions you can use the link to a recent parliamentary briefing paper on the subject prepared for MPs commonslibrary.parliament.uk/research-briefings/sn05656/

The Annual Report and Accounts for RPF for the Year Ended 31 December 2022 has recently been published on the trustees website and provides useful information on the development of our Fund and is well worth reading. The website address is www.reuterspensionfund.co.uk/. The SPS Report and Accounts can be found at www.reuterssps.co.uk/

In future issues of our Bulletin we will be taking a look at the actuarial valuations currently underway for RPF/SPS and the gathering movement by trustees and sponsoring employers of purchasing insurance policies to cover pension fund benefit liabilities.