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THE ASSOCIATION OF BRITISH AIRWAYS PENSIONERS

Press Release – 25th November 2020

Commenting on: A Response to the Consultation on the Reform to Retail Prices Index (RPI) Methodology

The announcement today that the Chancellor of the Exchequer intends to align RPI with CPIH from 2030 is unwelcome news for millions of present and future UK pensioners and their company pension schemes, who are big investors in index-linked gilts - government bonds with a promise to match inflation at RPI.

It imposes an unfair transfer of wealth from pensioners and investors to the Government to the tune of £100bn to £130bn. The deferment to 2030 is scant consolation to those now aged 65 who will see a minimum 4% to 5% lifetime reduction in an RPI-linked pension. It will hit women (who have a longer life expectancy), younger pensioners and those still to draw their pensions particularly hard.

The government has said that it will not compensate holders of index linked gilts, presumably because RPI will still exist but at a lower level aligned with CPIH (on average about 1% lower than RPI per annum). This is going to damage the credibility of government investments at a time when inward investment is badly needed.

Pension schemes were specifically advised by The Pensions Regulator to invest in these RPI-linked gilts as a hedge against CPI inflation, protecting the financial stability of schemes. Many schemes, such as BA's New Airways Pension Scheme (NAPS), with 63,000 members, are battling to repair huge deficits so a reduction in investment income presents another obstacle on the path to full funding. The Trustee and 21,000 members of BA's older Airways Pension Scheme (APS) fought a long battle to successfully restore RPI rises, only now to see them removed at a stroke of the Chancellor's pen. These are not "gold-plated" pensions, the average BA pension is somewhere about the level of the National Minimum Wage and many are much lower.

The influential Pensions and Lifetime Savings Association (PLSA), representing 1300 pension schemes with 20 million members and £1 trillion in assets, has proposed: *"In order to transition away from the use of RPI in a fair and equitable way, we suggest the government and the UKSA deliberately adjust index-linked gilts from RPI to CPIH + X, where X is an agreed and transparently calculated adjustment reflecting the expected long term average future income of RPI over the new inflation measure. This solution is also commonly referred to within industry as "CPIH + a spread". Alternatively, the Government may also wish to consider paying any future lost income to index-linked gilt holders upfront."*

This proposal is supported by the Association of British Airways Pensioners (ABAP), by the APS Trustee and by the NAPS Trustee.

ABAP calls upon the Chancellor of the Exchequer to reconsider the aligning of RPI & CPIH and instead opt for the fairer option proposed by the PLSA.

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