Working Paper

Research exploring the effect of uprating by CPI on occupational pension schemes

by Lorna Adams, Rob Warren and Alistair Kuechel

DWP Department for Work and Pensions

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Department for Work and Pensions, Commercial Support and Knowledge Management Team,
Upper Ground Floor, Steel City House, West Street, Sheffield S1 2GQ

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The Authors

Lorna Adams is a Director at IFF Research Ltd. She specialises in work on employment and benefits issues and has particular experience of studies exploring workplace relations.

Rob Warren is also a Director at IFF Research Ltd. Rob has particular experience of conducting research into pension provision. Rob also has nine years of experience of managing social research projects on financial issues for the Financial Services Authority (FSA).

Alistair Kuechel is an Associate Director at IFF Research with particular experience of studies exploring pension provision and scheme governance.

Glossary of terms

Assets	A scheme's assets are the total underlying holdings of a pension scheme, including stocks, shares, fixed-interest securities or cash.
Caps on Indexation/Revaluation	A cap on indexation/revaluation is the percentage point above which scheme indexation/revaluation levels will not rise (for example, if a scheme was tied to the Retail Prices index (RPI) and scheme rules specified a cap of five per cent, should RPI be higher than five per cent the scheme rules would only allow an increase of five per cent). The statutory minimum increase for pensions in payment has been capped at five per cent for pension accrued between 1997 and 2005, and capped at 2.5 per cent thereafter.
Consumer Prices Index	A measure used to work out how much prices increase each year. It measures the change in the cost of a basket of products and services, including energy, food, and transportation. The Consumer Prices Index (CPI) includes rent and regular maintenance, but does not include all housing costs.
Deferred members	Deferred members (also known as deferred pensioners) are members of an occupational pension scheme who have left the scheme, usually because they have joined a new employer, and who are no longer paying contributions into the scheme. Their rights remain in the scheme until they are transferred to another pension scheme or a pension is paid at the normal pension age of the scheme.
Defined benefit (DB) scheme	A type of occupational pension scheme where the rules of the scheme decide how much a member will get. The amount members get at retirement is based on earnings and years of membership in the pension scheme. They are also known as 'salary-related' schemes. This report summarises findings from a study among private sector DB schemes with more than 11 members.
Defined contribution (DC) schemes	A pension scheme that provides a pension pot based on the amount of money paid in and the investment growth of this money. They are also known as 'money purchase' schemes.
Hybrid pension schemes	A workplace pension that offers members either a choice or mixture of DB and DC rights in retirement.
Indexation	A system whereby pensions in payment are automatically increased at regular intervals by reference to a specified index of prices or earnings.

Liabilities	Scheme liabilities are the obligations that must be met, i.e. future pension payments for all the members of the scheme. If a scheme's liabilities outweigh its assets it is categorised as being in deficit and ultimately the principal employer has to fund any shortfall.
Occupational pension scheme	A workplace pension organised by the employer for the benefit of employees, with the employer making contributions to the scheme and generally meeting administrative costs. The scheme is provided via the employer, but the pension scheme takes the form of a trust arrangement and is legally separate from the employer. Types of occupational scheme include defined benefit, defined contribution and hybrid.
Retail Prices index	A measure used to work out how much prices increase each year. It measures the retail price of a basket of goods and services including energy, food, petrol and housing.
Revaluation	The increase of a deferred pension between the date the member leaves service and their normal retirement age.
Statutory minimum	The statutory minimum is the minimum level by which pensions can be indexed and revalued. The required increase is determined annually when the Secretary of State makes a decision on the percentage based on the general level of prices (in the past using RPI, from now on using CPI).

Summary

Background and methodology

Following the Chancellor's statement in the June 2010 Budget that public service pensions and most state benefits would in future be increased in line with the Consumer Prices Index (CPI), the Government announced, on 8 July 2010, that CPI would also be used as the measure of inflation for statutory minimum indexation and revaluation of occupational pension schemes. In past years, the Government has used the Retail Prices index (RPI).

The impact of this change on pension schemes and members will depend on their scheme rules and the decisions of trustees. Some pension schemes will be able to change their uprating to the statutory minimum set out in the annual revaluation order – CPI or 2.5 per cent whichever is the lowest – either automatically or following trustee decision. Other schemes have RPI written in their rules and will not be able to change.

The Department for Work and Pensions (DWP) commissioned research into the effect of changing statutory revaluation and indexation from RPI to CPI on private sector defined benefit (DB) schemes. More specifically the research looked to:

- obtain more information about schemes' current rules in relation to indexation and revaluation;
- explore whether schemes expect to make any changes to revaluation and indexation of accruals as a result of the announcement;
- explore whether schemes have assessed the likely impact for them of the change from RPI to CPI.

This was a relatively small scale exercise designed to obtain an early indication of the way in which DB pension schemes might respond to the changes.

A 25-minute telephone survey was conducted with 200 DB schemes between 17 January and 7 February 2011 by IFF Research Ltd. All respondents had responsibility for managing schemes (in most cases this was the secretary to the trustees or the pension scheme manager). Only DB schemes with more than 11 members were included in the study.

Schemes were selected from The Pensions Regulator's (TPR) database of schemes[1] using a stratified random sampling approach[2].

Larger schemes were over-sampled relative to smaller schemes as they represent the majority of scheme members. This purposeful over-sampling is corrected at the analysis stage through the use of weights. These restore the profile of the achieved sample so that it matches that of the population at large in terms of scheme size. The weighted data is, therefore, representative of all DB schemes with more than 11 members. The majority of the analysis presented throughout focuses on this data.

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1 The SCORE database is TPR's register of pension schemes and holds information collected through a scheme return or online via Exchange. Trustees and managers of pension schemes have a legal obligation to supply TPR with information about their scheme. The information is shared with the Pension Protection Fund, DWP and the Pension Tracing Service.

2 A method of sampling that involves dividing (i.e. stratifying) a population into smaller groups (in the case of this study the sample was stratified by size of scheme). A random sample from each group is then interviewed.

Indicative predictions of the effect on members have also been produced using a secondary exercise to weight findings to the profile of scheme membership. In both cases the most up to date statistics from the TPR database have been used.

It should also be noted that in some places the base sizes used in analysis are very small. Analysis on base sizes below 50 are clearly marked in this report and caveats are included to show that results should be treated with caution.

Current rules

- **The majority of schemes have an explicit link to RPI in their scheme rules for indexation.**

Scheme rules vary with respect to the indexation of pensions in payment and the revaluation of deferred pensions. Some schemes have explicit links to RPI in their rules while others simply reference the statutory minimum or something else.

For the purposes of this report, there are four main combinations of scheme rules as listed below:

- a link to statute for both revaluation and indexation;
- an explicit link to RPI for revaluation and indexation;
- an explicit link to statute for revaluation and RPI for indexation;
- other approaches to revaluation and indexation.

The survey shows that in terms of the existing scheme rules, 16 per cent of DB schemes with more than 11 members are linked simply to statute for both indexation and revaluation. These schemes account for a comparable proportion of the total membership base (approximately 18 per cent). In the context of the changes announced in 2010, the pension rights these schemes anticipated would be revalued and indexed by RPI might now be expected to be revalued and indexed by CPI.

While schemes linked to the statutory minimum could automatically move to CPI, it is more complicated for schemes with explicit references to RPI in their rules. Around three in ten DB schemes (29 per cent) have rules that link both indexation and revaluation to RPI. These schemes represent 24 per cent of all DB scheme members.

At an overall level, 73 per cent of schemes currently have rules that link in some way to RPI for indexation or revaluation. This indicates that approximately 5,400 schemes explicitly reference RPI in one way or another and that around 77 per cent of all members (around 11.5 million people) are in schemes which have an explicit link to RPI.

Discretion and likelihood to change rules

- **Around half of schemes currently referencing RPI have the ability to change their inflation measure from RPI to CPI but many of these report that they are unlikely to do so.**

Among those schemes with an explicit link to RPI in their rules for indexation or revaluation, some could still seek to use CPI for uprating through either seeking an amendment to scheme rules or exercising permitted discretion.

Most schemes that currently reference RPI state they would need to change their rules in order to move from using RPI to CPI – 87 per cent of schemes which reference RPI in their rules for indexation state they would need to change their rules. The pattern is similar for schemes that reference RPI in terms of revaluation; again 87 per cent state the rules would need to change for CPI to be used. Hence, 13 per cent of schemes (both for indexation and revaluation) could in theory start to use CPI for uprating without requiring any form of change to their existing rules.

Some of these schemes that would need to make amendments to adopt CPI have provision in their rules for making changes of this nature. Overall, around half of all schemes currently referencing RPI state that they either have provision to change their rules to adopt an alternative measure for pension increases or that they could do so without a change to their rules.

In terms of those with reference to RPI for indexation, 53 per cent in total have the ability to move to CPI (13 per cent without a rule change and 40 per cent following an amendment that their scheme rules currently give them the power to make). For revaluation purposes, 45 per cent have the ability to move to CPI (13 per cent without a rule change and 32 per cent with an amendment that their scheme rules currently allow). These are the schemes that could be affected by the change from RPI to CPI without the need for a statutory override or a modification power.

However, only a minority of these schemes that could theoretically make changes believe they are likely to do so. Sixteen per cent of schemes which reference RPI for indexation and have provision to change their rules state they would be likely to move to CPI for indexation. At an overall level, these schemes represent six per cent of schemes and seven per cent of all members (around 1.1m members).

In total, 30 per cent of schemes which reference RPI for revaluation state that they can change their rules and that they would be likely to move to CPI. These schemes represent four per cent of all schemes and four per cent of members (around 0.6m members).

Measures taken to date

- **Most schemes (particularly larger schemes) have sought advice and reviewed scheme literature since hearing about the changes.**

As a result of hearing about the changes announced most schemes have sought professional advice (75 per cent) and most have reviewed scheme literature (70 per cent). In addition, 32 per cent of schemes have made formal assessments of how liabilities will change if CPI is used as the measure of inflation. Larger schemes are more likely to have taken action.

Of the schemes that have made formal assessments most (82 per cent) have calculated that liabilities will decrease. As would be expected – among schemes currently linked to statute, the proportion is even higher (94 per cent).

Of the schemes that have undertaken a review of scheme literature a third (32 per cent) believe it could cause some complications with scheme members. This is generally because the scheme literature references RPI, even in cases when scheme rules do not (i.e. there could be difficulties based on the understanding or expectations of members being out of kilter with scheme rules).

Scheme security

- **The majority of schemes believe the funding position of their scheme will be more secure as a result of the decision to use CPI as the basis for setting the statutory minimum for indexation and revaluation.**

In terms of membership, 74 per cent of all members are part of schemes which indicate their scheme will be more secure as a result of the changes announced in July 2010.

1 Introduction and approach

1.1 Background

Defined benefit (DB) occupational pension schemes are required to increase pensions in payment which are based on pensionable service after 6 April 1997. The amount of the required increase is determined annually when the Secretary of State makes a decision on the percentage increase in the general level of prices. The statutory minimum increase is capped at five per cent for pension accrued between 1997 and 2005, and capped at 2.5 per cent thereafter.

Occupational schemes are also required to preserve the pension rights of members who cease pensionable service before reaching pension age, provided they have completed at least two years service. Rights in DB schemes have to be revalued to give some protection against the effects of inflation over the period of deferral, i.e. until the pension is put into payment. Again, the statutory minimum required increase is determined annually when the Secretary of State makes a decision on the percentage increase in the general level of prices.

The legislation on indexation and revaluation of private sector occupational pensions does not specify a particular measure of inflation. In previous years, the Retail Prices index (RPI) has been used, but in July 2010, the Government announced its intention to use the Consumer Prices Index (CPI) as the basis for determining the statutory minimum percentage increase for revaluation and indexation of private sector occupational pensions. The legislation sets out what schemes must do as a minimum each year – they may, however, make larger increases under scheme rules.

A consultation on the impact of using CPI as the measure of price increases for private sector occupational pensions was also launched in December 2010.[3] The key proposals in the consultation document were that:

- private sector schemes will not be forced to change from RPI to CPI where the scheme rules refer specifically to RPI;
- legislation will not be passed to make it easier for scheme trustees to change the pension increase/revaluation provisions in their scheme rules if they do not already have the power to do so; and
- measures would be introduced to ensure schemes with RPI rules don't have to increase benefits using CPI if it is higher.

CPI is generally lower than RPI, and so members of private sector DB schemes could see the anticipated value of their pension rights reduced. Pension schemes, however, will see the value of their pension liabilities reduced and so may become more sustainable or affordable as a result.

The specific impact on a scheme's liabilities and on scheme members will depend on whether it can be aligned with the new statutory minimum which in turn will depend on the wording of the rules for individual schemes (and schemes' desire and ability to make changes). This research will help provide some understanding of how DB schemes and their members are likely to be affected by the change.

[3] http://www.dwp.gov.uk/docs/cpi-private-pensions-consultation.pdf

The Department for Work and Pensions (DWP) commissioned IFF Research Ltd to explore the effect of changing statutory revaluation and indexation from the RPI to CPI on private sector DB schemes. More specifically the research looked to:

- obtain more information about schemes' existing rules in relation to indexation and revaluation;
- explore whether schemes expect to make any changes to revaluation and indexation of accruals as a result of the announcement;
- explore whether schemes have assessed the likely impact for them of the change from RPI to CPI.

1.2 Research approach

A 25-minute telephone survey was conducted with 200 DB scheme managers and administrators between 17 January and 7 February 2011 by IFF Research Ltd.

All respondents had responsibility for managing schemes (in most cases this was the secretary to the trustees or the pension scheme manager). Only DB schemes with more than 11 members were included in the study, as schemes with fewer than 12 members represent a very small proportion of the total DB membership.

Hybrid and sectionalised schemes were also included in the study. In these instances, scheme managers focused on the largest DB section of the scheme (i.e. the section with the most members).

Given the complexity and factual nature of the subject matter, a two-stage process was adopted whereby respondents were invited to take part in the study. After a screening exercise to identify eligibility and identify the most appropriate respondent, participating organisations completed a detailed 'data sheet' about their pension schemes and their rules. The datasheet (offered in either hard copy or by e-mail) outlined the types of questions asked in the survey. In addition, the questions were made available on a secure website to potential respondents.

For convenience, respondents were offered appointments for the interview to take place at a later date once they had been able to collate the necessary information.

Schemes were selected from The Pensions Regulator's (TPR) database of schemes[4] using a stratified random sampling approach[5].

The 200 interviews were structured by scheme size. Table 1.1 shows the structure of the achieved interviews (a relatively even split was achieved across the four size categories used to stratify the sample).

[4] The SCORE database is TPR's register of pension schemes containing information collected through a scheme return or online via Exchange. Trustees and managers of pension schemes have a legal obligation to supply TPR with information about their scheme. The information is shared with the Pension Protection Fund, DWP and the Pension Tracing Service.

[5] A method of sampling that involves dividing (i.e. stratifying) a population into smaller groups (in the case of this study sample was stratified by size of scheme). A random sample from each group is then interviewed.

Table 1.1 Achieved sample

Number of scheme members	Achieved sample	Achieved sample profile %
12 to 99	52	26
100 to 999	47	24
1,000 to 4,999	52	26
5,000+	49	25

As Table 1.2 shows the actual population of private sector DB schemes is somewhat different.

Larger schemes were over-sampled relative to smaller schemes since larger schemes are fewer in number in the economy at large, so therefore, represent the majority of DB members. This over-sampling ensured that larger schemes were covered in sufficient detail for sub-group analysis to be conducted.

The unbalanced nature of the achieved sample, when compared to the population at large, caused primarily by the purposeful over-sampling of larger schemes is corrected during the analysis through the use of weights. These restore the profile of the achieved sample so that it matches that of the population at large in terms of scheme size. The weighted data is, therefore, representative of all DB schemes with more than 11 members. The majority of the analysis presented throughout focuses on this data.

Table 1.2 Scheme weighting profile

Number of scheme members	Total number of schemes	Weighted sample profile %
12 to 99	2,553	34
100 to 999	3,416	46
1000 to 4999	976	13
5000+	475	6
Total	**7,420**	**100**

Some further weights have been applied and are sometimes used in the analysis to indicate the percentage of employees that may be affected by the changes. As before, the data have been weighted according to statistics from TPR’s pension scheme register. This is of particular interest as it allows us to indicate the proportion (or estimated number) of members that may be affected by the changes announced in 2010.

The detailed weighted matrices used in the analysis and more information on the methodological approach can be found in Appendix A of this report.

1.3 Reporting conventions

The majority of this report is based on scheme analysis – this means the percentages described relate to the proportion of all DB schemes with more than 11 members.

The secondary weighting exercise also allows analysis by membership (that is it allows us to show the proportion of all members in schemes with more than 11 members that may be impacted by the proposed changes). Where analysis is conducted on a membership basis in this report it is clearly identified.

The membership analysis in this report should be treated with caution. This is due to a relatively small proportion (25 per cent) of achieved interviews with schemes that have over 5,000 members, yet these schemes represent over three-quarters (77 per cent) of all members. This has meant that a high weighting factor has been applied to these largest schemes. Therefore, the answers of the 50 largest schemes taking part in the survey have been given much greater ‘importance’ in this analysis than the remainder 150 schemes that took part in the study. With this in mind, a degree of caution is needed when considering the membership analysis within this report.

It should also be noted that in some places the base sizes used in analysis throughout this report are lower than 50. Analysis on base sizes below 50 are clearly marked in this report and caveats are included to show that results should be treated with caution. This is due to the margins of error being quite large around findings based on this number of interviews.

It is possible that some tables and figures in this report will sum to just over or under 100 per cent (i.e. 99 per cent or 101 per cent) - this is due to the rounding in the analysis.

1.4 Profile of schemes

The following section of this chapter briefly sets out the profile of DB schemes (with more than 11 members). All data included in this section are weighted and based on responses given during the interview.

The majority of DB schemes (79 per cent) are around 40 years old and are closed to new members (62 per cent). As Table 1.3 shows, only a minority of schemes (15 per cent) are still open to new members.

The schemes open to new members are more likely to have been established since 1990 (around a quarter – 26 per cent of schemes established in the last 20 years are still open – this compares to just ten per cent of schemes over 20 years old).

Table 1.3 Status of scheme

Status	%
Open to new members	15
Closed to new members	62
Frozen or paid up	20
In the process of winding up	3
Base: All schemes	*200*

Most of these schemes are final salary schemes (92 per cent). Of the remaining schemes they are predominantly career average schemes.

Half of all DB schemes have fewer than 200 members (51 per cent) and only a minority (six per cent) have more than 5,000 members. It should be noted the largest schemes (i.e. 5,000+) represent around three-quarters of all members and liabilities. Where membership figures are shown in this report they have been weighted to this profile (see Appendix A for more details).

Table 1.4 shows the average (mean) number of active, deferred and pensioner members across the four size groups used to stratify the sample. In schemes with over 5,000 members the average number of members in a scheme is 16,290. This further highlights that the largest schemes represent the majority of all members.

Table 1.4 Average (mean) membership

Number of scheme members	Active members	Deferred members	Pensioner members	All members
12 to 99	12	28	17	51
100 to 999	60	173	109	342
1,000 to 4,999	413	1,092	666	2,171
5,000+	3,008	6,736	6,546	16,290
All schemes	**271**	**660**	**554**	**1,485**

To give an indication of the funding position of schemes, Table 1.5 shows the average (mean) assets and liabilities across the four size groups. Figures provided by schemes were approximate and should be treated with caution. This is most prevalent in relation to liabilities since schemes only need to submit accurate information to TPR once every three years and hence will have been providing information relating to different points in time.

Table 1.5 Average (mean) assets and liabilities[6]

Number of scheme members	Assets £(m)	Liabilities £(m)
12 to 99	5.9	7
100 to 999	29.2	36.4
1,000 to 4,999	132.8	173.6
5,000+	485.7	584.3
All schemes	**68.9**	**87.4**

1.5 Report structure

The remainder of this report is split into the following chapters:

- **Chapter 2** outlines the current rules in place for both the indexation of pensions in payment and the revaluation of deferred pensions;
- **Chapter 3** examines whether trustees can exercise discretion over scheme rules and whether they are likely to (or can) change scheme rules;
- **Chapter 4** explores the measures and actions taken to date (if any) by schemes since the announcements and consultation in 2010;
- **Chapter 5** briefly looks at scheme security (i.e. their likelihood to remain open and the future funding position of the scheme);
- **Chapter 6** conclusions.

6 Figures should be treated with a degree of caution – in terms of assets schemes were asked for the approximate value at the last valuation, in terms of liabilities schemes were asked for the scheme specific valuation (or technical provisions).

2 Overview of current scheme rules

This chapter outlines the current rules in place for both the indexation of pensions in payment and the revaluation of deferred pensions.

Scheme rules vary with respect to the indexation of pensions in payment and the revaluation of deferred pensions. Some schemes have explicit links to the Retail Prices index (RPI) in their rules while others simply reference the statutory minimum or something else.

For the purposes of this report, there are four main combinations of scheme rules as listed below:

- a link to statute for both revaluation and indexation;
- an explicit link to RPI for revaluation and indexation;
- an explicit link to statute for revaluation and RPI for indexation;
- other approaches to revaluation and indexation.

As a result of the move to the Consumer Prices Index (CPI), schemes specifically referencing the statutory minimum would be expected to now revalue and/or index pension rights by CPI. That said, by their very nature scheme rules are very complicated and are likely to have evolved over time. Even schemes tied to the statute may find the very fact that the minimum will be referenced to CPI in the future will have consequences on the administration of the scheme. This is an area which is discussed in more detail in Chapter 4.

The action taken by those who currently reference RPI will depend on the exact nature of their scheme rules and the appetite of the trustees for change. This report seeks to provide more information on whether these schemes will seek to (and can) change their scheme rules to CPI or whether they will remain tied to RPI.

2.1 Overview of scheme rules

At an overall level, just under three-quarters (73 per cent) of all defined benefit (DB) schemes with more than 11 members currently reference RPI for either indexation or revaluation. This equates to around 5,400 of the 7,420 DB schemes with more than 11 members[7].

These schemes represent about 77 per cent of the total DB membership[8] and means approximately 11.5 million people are in schemes that have some explicit link to the RPI[9].

7 The Pensions Regulator (TPR) statistics show there are 7,420 DB schemes in total with more than 11 members. It is this population to which scheme data are weighted in this section. Full details of the weighting approach are included in Appendix A.

8 As noted at the beginning of this report, given the relatively small base [50] within the four size bands used to stratify the sample and the high weighting factor applied to the largest size bands, membership results should be treated with a degree of caution and as indicative.

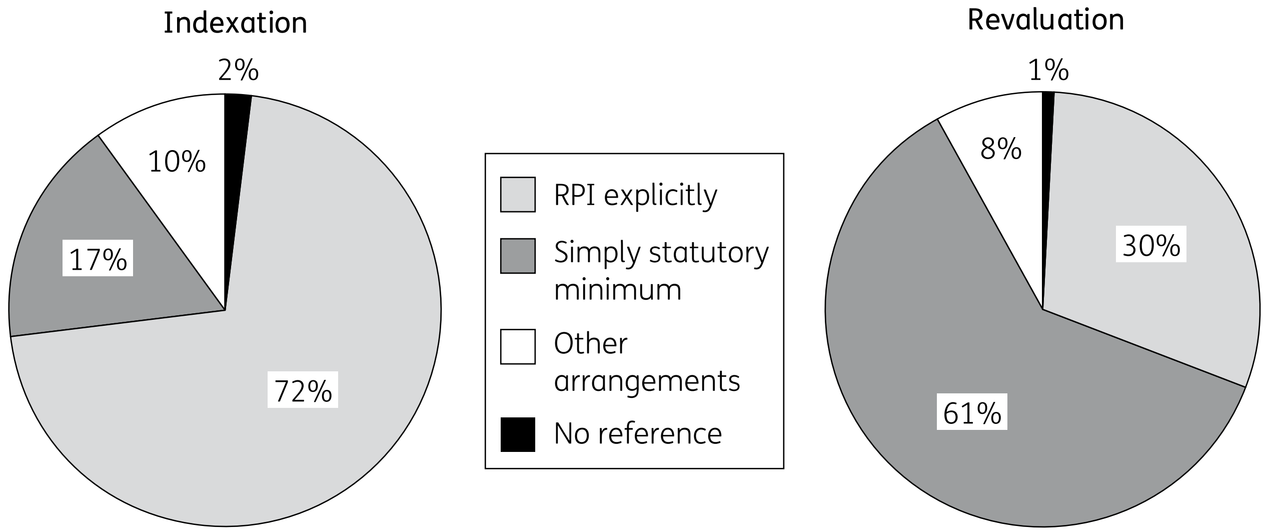
9 TPR statistics show there are 15,029,480 members of DB schemes in total with more than 11 members. It is this population to which membership data are weighted. Full details of the weighting approach are included in Appendix A.

As discussed above, it is these schemes that the majority of this report focuses on to help estimate how many schemes will seek to amend their current rules to use CPI instead of RPI (and how many pension scheme members will be affected as a result).

As Figure 2.1 shows, schemes are more likely to reference RPI for the indexation of pensions in payment than they are for the revaluation of deferred pensions (72 per cent of schemes reference RPI for indexation whereas only 30 per cent of schemes reference RPI for revaluation).

As a higher proportion of schemes have rules that link revaluation to the statutory minimum than indexation (61 per cent compared to 17 per cent), there is in principle more scope for deferred members of DB pension schemes to be affected by a move to CPI than pensioner members.

Figure 2.1 Overview of indexation and revaluation rules



Base: All schemes (200).

2.2 Relationship between scheme rules

Figures 2.2 and 2.3 present the same information slightly differently – demonstrating the relationship between indexation and revaluation rules. Figure 2.2 shows the analysis based on all schemes and Figure 2.3 shows a similar breakdown based on a membership base[10].

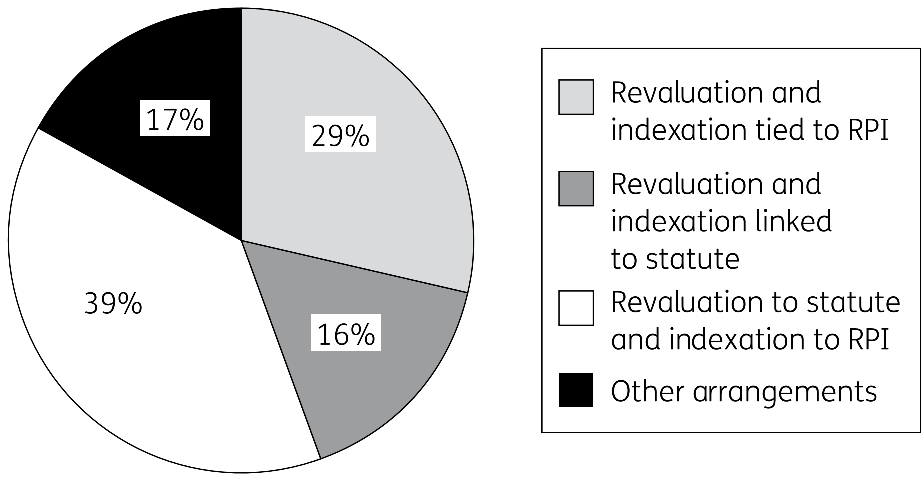
Sixteen per cent of DB schemes with more than 11 members are linked simply to statute for both indexation and revaluation and these schemes account for a comparable proportion of the total membership base (approximately 18 per cent). In the context of the changes announced in 2010, the pension rights these schemes anticipated revaluing and indexing by RPI might now be expected to be revalued and indexed by CPI .

10 As noted at the beginning of this report, given the relatively small base [50] within the four size bands used to stratify the sample and the high weighting factor applied to the largest size bands, membership results should be treated with a degree of caution and as indicative.

Three in ten DB schemes (29 per cent) have rules that tie both indexation and revaluation to RPI. These schemes represent about 24 per cent of all DB scheme members. A further 39 per cent of schemes are linked to statute for revaluation and to RPI for indexation (representing about 49 per cent of all DB members).

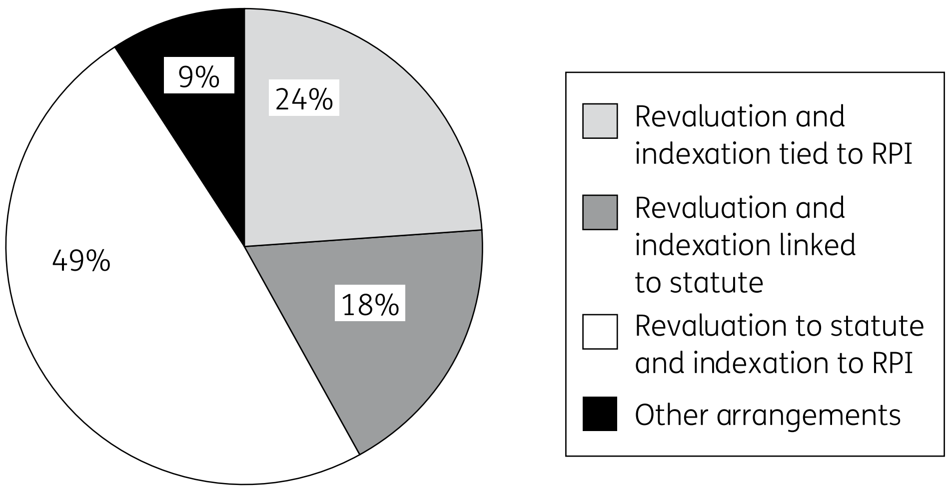
The remaining schemes have other arrangements in place, including a very small proportion of schemes (one per cent) that state their rules do not make specific reference to indexation or revaluation and a minority of schemes (three per cent) that reference RPI for indexation, but state they have other arrangements in place for the revaluation of deferred pensions. Only one per cent of schemes are linked to RPI for revaluation and not for indexation (they are linked to statute for indexation).

Figure 2.2 Overview of all scheme rules – scheme analysis



Base: All schemes (200).

Figure 2.3 Overview of scheme rules – membership analysis



Weighted base: All members (15,029,480). Unweighted base: All members (280,848).

Tables 2.1 and 2.2 explore this information in more detail by showing how the rules for indexation and revaluation overlap (both in terms of scheme analysis and membership analysis).

The tables are split into 16 mutually exclusive cells, all of which sum to 100 per cent. Rules for indexation are shown down the left hand side and rules for revaluation along the top. Each cell shows the proportion of the total population covered by schemes with each combination of rules.

Table 2.1 Scheme analysis of scheme rules

	Rules for revaluation			
	RPI explicitly %	**Statutory minimum %**	**Another amount %**	**Rules do not reference revaluation %**
Rules for indexation				
RPI explicitly	29	39	3	<1
Statutory minimum	1	16	–	–
Another amount	–	6	5	–
Rules do not reference revaluation	–	1	–	1

Table 2.2 Membership analysis of scheme rules

	Rules for revaluation			
	RPI explicitly %	**Statutory minimum %**	**Another amount %**	**Rules do not reference revaluation %**
Rules for indexation				
RPI explicitly	24	49	<1	<1
Statutory minimum	4	18	–	–
Another amount	–	1	3	–
Rules do not reference revaluation	–	<1	–	<1

2.3 Caps on indexation/revaluation

Schemes were also asked whether their scheme imposes caps on the level of indexation and revaluation. In this context a cap is a percentage point above which indexation/revaluation levels will not rise (for example, if a scheme was tied to RPI and scheme rules specified a cap of five per cent, should RPI rise higher than five per cent the scheme rules would only allow increases of five per cent).

Caps are most likely to be imposed on levels of indexation (87 per cent of schemes place caps on indexation). By comparison, 67 per cent of schemes place caps on revaluation.

As Table 2.3 shows, caps are more likely to be in place for both indexation and revaluation where the rules specifically reference RPI. In terms of indexation, 92 per cent of schemes referencing RPI in their rules place caps (compared with 71 per cent of schemes referencing the statutory minimum).

A similar pattern emerges with regards to revaluation – 85 per cent of schemes that reference RPI in their revaluation rules have caps in place (compared with 61 per cent of schemes referencing the statutory minimum).

Table 2.3 Caps in place by scheme rules

	Indexation		Revaluation	
	Linked to RPI %	Linked to statute %	Linked to RPI %	Linked to statute %
Have caps in place	92	[71]	85	61
No caps in place	8	[29]	15	39
Base	*141*	*[41]**	*57*	*128*

* NB Small base size under [50].

Focusing on the level and types of caps in place for indexation there was a relatively even split between the following:

- five per cent pre and post April 2005[11] (39 per cent of all schemes with caps in place) – i.e. these are schemes that retained the original statutory minimum after 2005;
- five per cent pre April 2005 and 2.5 per cent after (31 per cent of all schemes with caps in place) – i.e. these are schemes that changed their cap in line with statutory minimum cap in 2005;
- another arrangement (30 per cent of all schemes with caps in place).

In terms of the types of caps in place for revaluation, schemes were broadly split between those that had reduced the cap to 2.5 per cent for service after April 2009 and those that had not:

- five per cent for service pre April 2009 and 2.5 per cent after (42 per cent of all schemes with caps in place);
- five per cent pre and post April 2009 (39 per cent of all schemes with caps in place);
- another arrangement (17 per cent of all schemes with caps in place).

11 The statutory minimum is set by the Secretary of State each year and a cap is also included. The statutory minimum increase was capped at five per cent for pension accrued between 1997 and 2005, and capped at 2.5 per cent thereafter.

3 Discretion and likelihood to change scheme rules

Having examined the current rules in place for schemes this chapter explores whether schemes currently referencing the Retail Prices index (RPI) would like to change their rules to adopt the Consumer Prices Index (CPI) as the measure for inflation for indexation and/or revaluation. It also looks at the extent to which they feel it will be possible to do this within their existing scheme rules.

Even if schemes wish to change their rules it is important to recognise that whether they can do so is often a complex and difficult matter (all scheme rules are different, in some cases it may be relatively straightforward for trustees to modify and change the rules for some or all benefits, in other cases this may be impossible due to the specific wording of the scheme rules and concerns about overriding legislation).

The chapter starts by exploring discretion in scheme rules in general before going on to look at the specific proportion of schemes that feel that they currently have the power to choose to move to CPI rather than RPI. It then goes on to look at how many of those who *could* in theory move to CPI anticipate that they will do so.

The chapter ends with an overview of the proportion of all defined benefit (DB) schemes with more than 11 members (and the proportion of the overall membership) that may be affected by decisions to move from RPI to CPI.

3.1 Schemes linked to the Retail Prices index – discretion

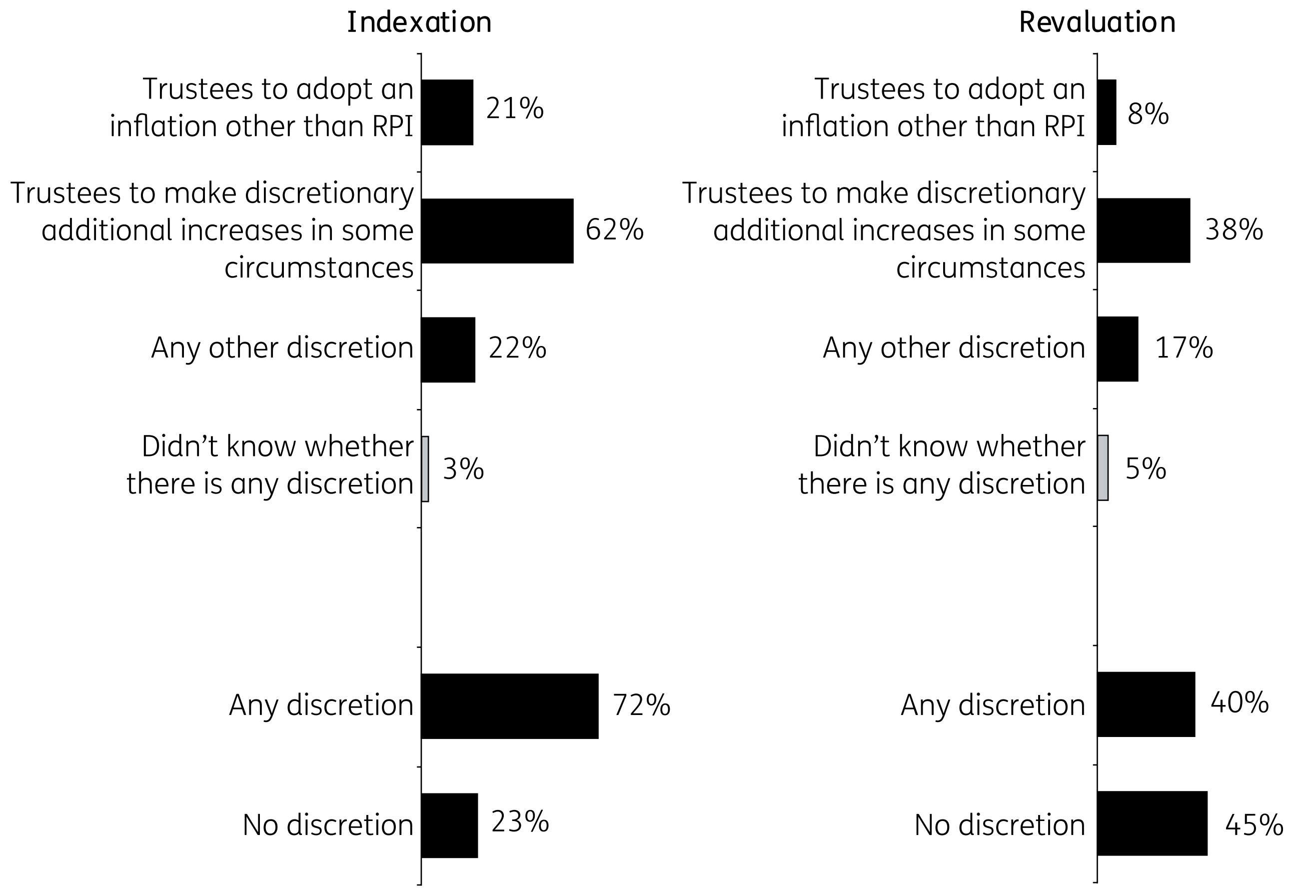
The following sections of this chapter explore in detail the schemes which specifically reference RPI, beginning with the discretion that trustees have.

Respondents were asked to comment on whether their scheme currently makes provision for certain types of discretion in rules around indexation and revaluation. As Figure 3.1 shows, the majority of schemes (72 per cent) linking to RPI for indexation allow trustees to make some discretionary changes to the rules. Most commonly this relates to making ad hoc discretionary increases in some circumstances (62 per cent) although around a fifth (21 per cent) of these schemes specifically allow trustees to adopt an inflation measure other than RPI.

In terms of revaluation, a smaller proportion of schemes (40 per cent) allow the trustees to make discretionary changes (again most commonly additional increases in certain circumstances).

Although the majority of schemes have some discretion with regards to indexation, it is very rarely exercised. Only a minority (ten per cent of all schemes referencing RPI) have exercised their discretionary powers in the past five years (and they have usually only exercised it once). Of the schemes referencing RPI for revaluation none of them have ever exercised their discretionary powers.

Figure 3.1 Discretion among schemes referencing RPI[12]



Base: All schemes tied to RPI for indexation (141).

Base: All schemes tied to RPI for revaluation (57).

3.2 Changing the rules – indexation

Focusing on the 72 per cent of schemes that link to RPI for indexation, this section explores in more detail the proportions that can (and have provision to) change the scheme rules.

Schemes were also asked specifically about whether they would need to make changes to scheme rules to adopt CPI rather than RPI as the measure of inflation. Although the majority of these schemes have some form of trustee discretion in place (albeit rarely used), most schemes stated that if they were looking to specifically reference CPI instead of RPI then they would need to change their rules (87 per cent of schemes which reference RPI in their rules for indexation state they would need to change their rules). This includes a small number who stated at the previous question (Figure 3.1) that there was provision in their rules for an alternative measure of inflation to be adopted.

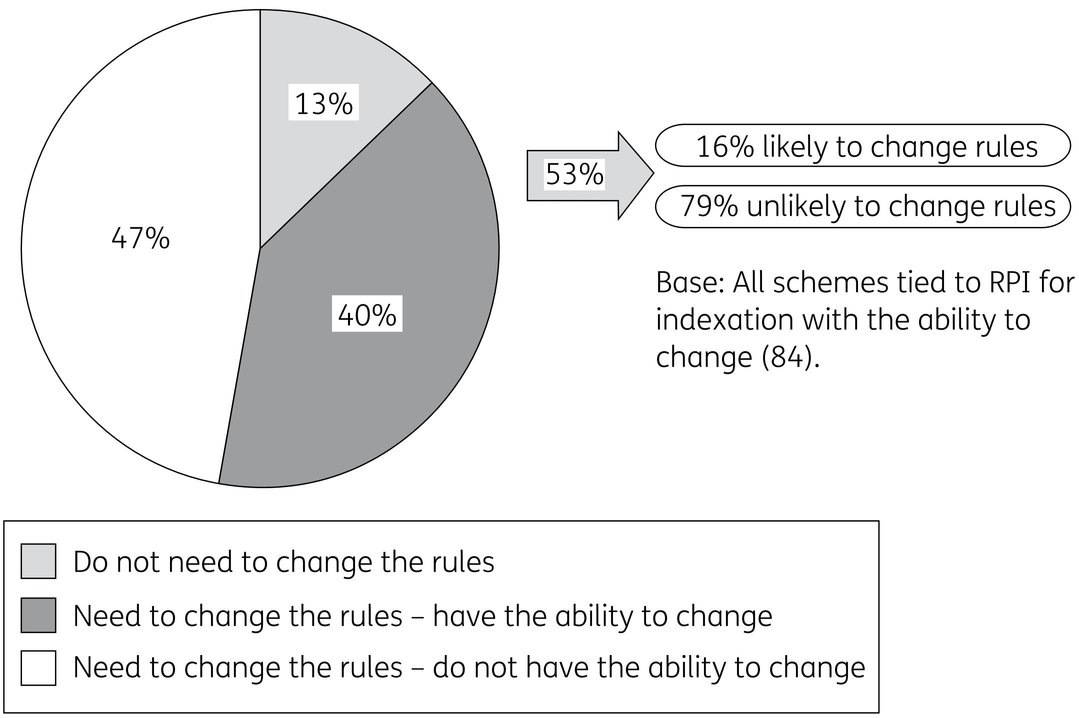
The 87 per cent of schemes who stated that they would need to make amendments to scheme rules to allow them to adopt CPI were asked whether they had provision within their scheme rules to allow such an amendment to be sought.

12 This was a multi-coded question where schemes could code all that apply – percentages will sum to more than 100.

As Figure 3.2 shows, around half of schemes (53 per cent) referencing RPI for indexation state that they either have provision to adopt CPI as the measure for uprating without changing scheme rules or that there is provision within their scheme rules for them to make such an amendment. These are the schemes that could potentially change from RPI to CPI without a statutory override or a modification power.

The remaining 47 per cent of schemes state they do not have the power to change their scheme rules (and therefore will continue to uprate by RPI).

Figure 3.2 Changing the rules – indexation



Base: All schemes tied to RPI for indexation (141).

The 53 per cent of schemes who stated that they are technically able to adopt CPI as the measure for uprating were asked whether they felt they were likely to do so. Figure 3.2 also shows the likelihood of these schemes to change their indexation rules. Only a minority of schemes are likely to do so – 16 per cent of all schemes that have provision to change the rules are likely to do so (four per cent are very likely and 11 per cent are fairly likely). This equates to around six per cent of all schemes and approximately seven per cent of all members.

Those schemes that stated they did not have the ability to adopt CPI as the measure for uprating within their current rules were asked whether they would want to do so if they were able to. Among the 47 per cent of schemes that do not have the ability to override current scheme rules, a quarter (25 per cent) would like to be able change the rules if it was possible to do so (equating to nine per cent of all schemes and approximately nine per cent of all members). These are the schemes that would be impacted if the decision was made to introduce a statutory override or modification power.

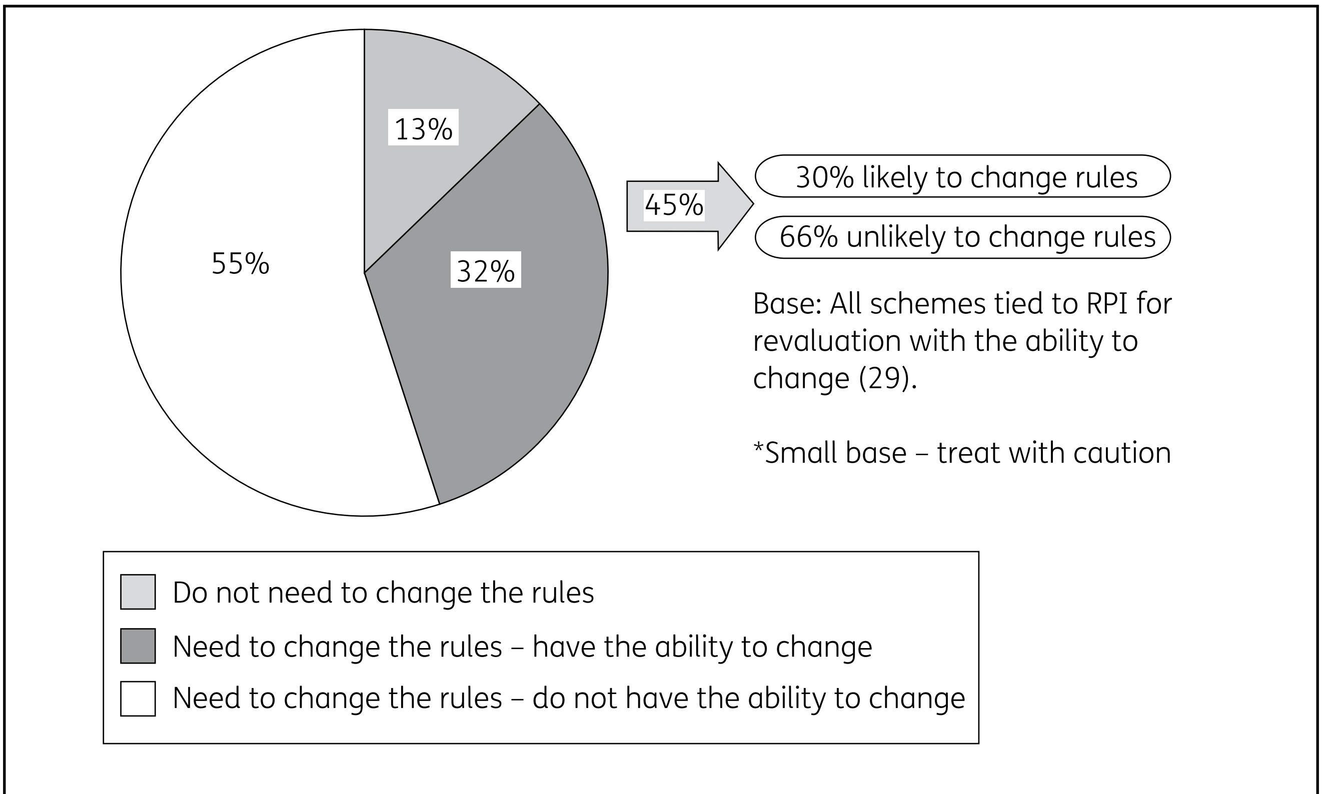
3.3 Changing the rules – revaluation

Focusing on the rules surrounding revaluation – again most schemes state they would need to change their rules to move from using RPI to CPI (87 per cent of schemes which reference RPI in their rules for revaluation also state they would need to change their rules). Again, most schemes referencing RPI in their revaluation rules envisage retaining this link.

As Figure 3.3 shows, around half (45 per cent) of schemes referencing RPI for revaluation state that they are either able to adopt CPI without a change in scheme rules or that they currently have scope within their rules to make this adjustment.

Again, schemes that were able to make changes were asked about their likelihood to do so. In terms of the likelihood to change rules in cases where it is possible, base sizes are relatively small [29], so findings are presented for indicative purposes only. However, around 30 per cent of schemes which reference RPI for revaluation state they would be likely to (and can) change their rules to adopt CPI. These schemes represent about four per cent of all schemes and four per cent of all members.

Figure 3.3 Changing the rules – revaluation



Base: All schemes tied to RPI for revaluation (57).

3.4 Indexation – scheme overview

Having explored schemes which are specifically referencing RPI for indexation and/or revaluation this section gives a more detailed overview based on all DB schemes with more than 11 members.

The diagram shown in Figure 3.4 summarises what schemes are likely to do as a result of the changes with regards to the indexation of pensions in payment.

The boxes at the top show the current scheme rules for indexation (as discussed in the previous chapter). The diagram splits these groups out by schemes which have the ability to change the scheme rules (i.e. they have provision to specifically change or modify the rules) and whether they are likely (or unlikely) to change the rules. Although the percentages shown in this chart are based on all schemes – percentages shown sum to just under 100 per cent due to some schemes giving 'don't know' responses at some questions.

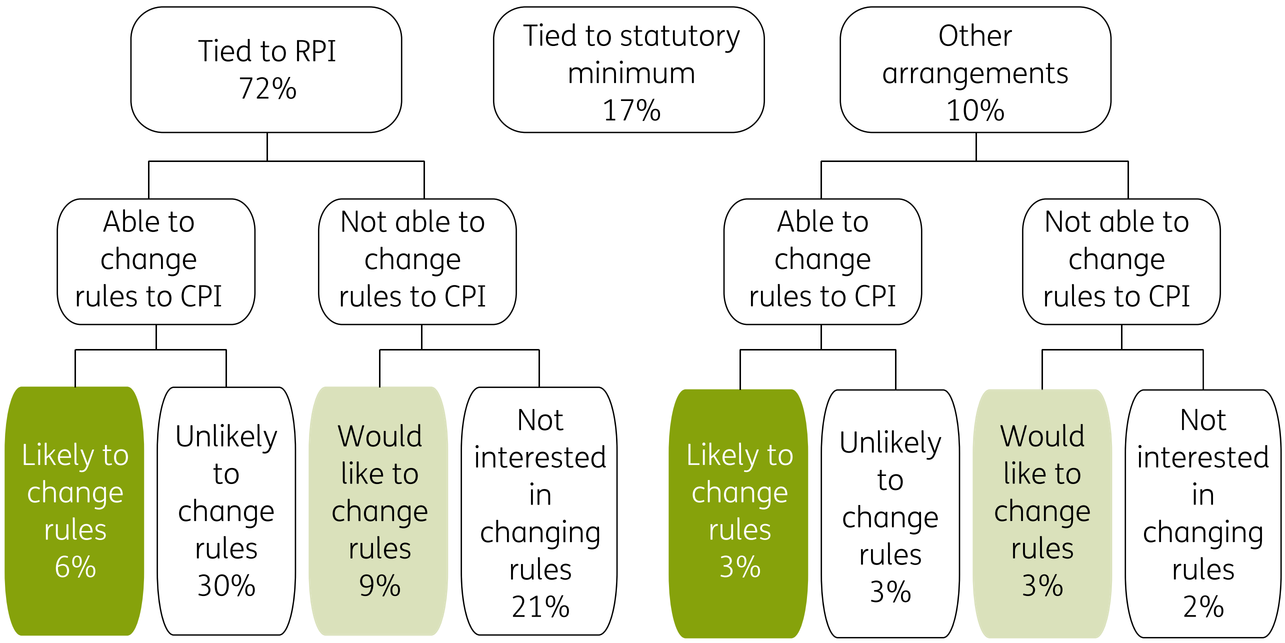
The diagram shows that the majority of schemes with the ability to change or modify the rules are unlikely to do so. This means most schemes are likely to retain their link with RPI rather than change their rules to reference CPI.

At an overall level only six per cent of all schemes are currently linked to RPI for the indexation of pensions in payment, are able to modify and change their scheme rules, and believe they are likely to do so. By contrast, 30 per cent of all schemes have the theoretical ability to modify their reference to RPI but are unlikely to do so.

Overall, the diagram shows that nine per cent of all schemes referencing RPI or with other arrangements in place for indexation are likely to change their scheme rules.

This research found that many schemes tied to RPI that are not able to adopt CPI do not seem that interested in moving to CPI. Even when schemes which cannot change their current rules regarding indexation were asked if they would like to be able to do so; most schemes stated they were not interested in making this change (21 per cent of all schemes). That said, a further 12 per cent of schemes would change the scheme rules if they had the power to do so (i.e. the sum of the light green boxes).

Figure 3.4 Indexation – scheme overview



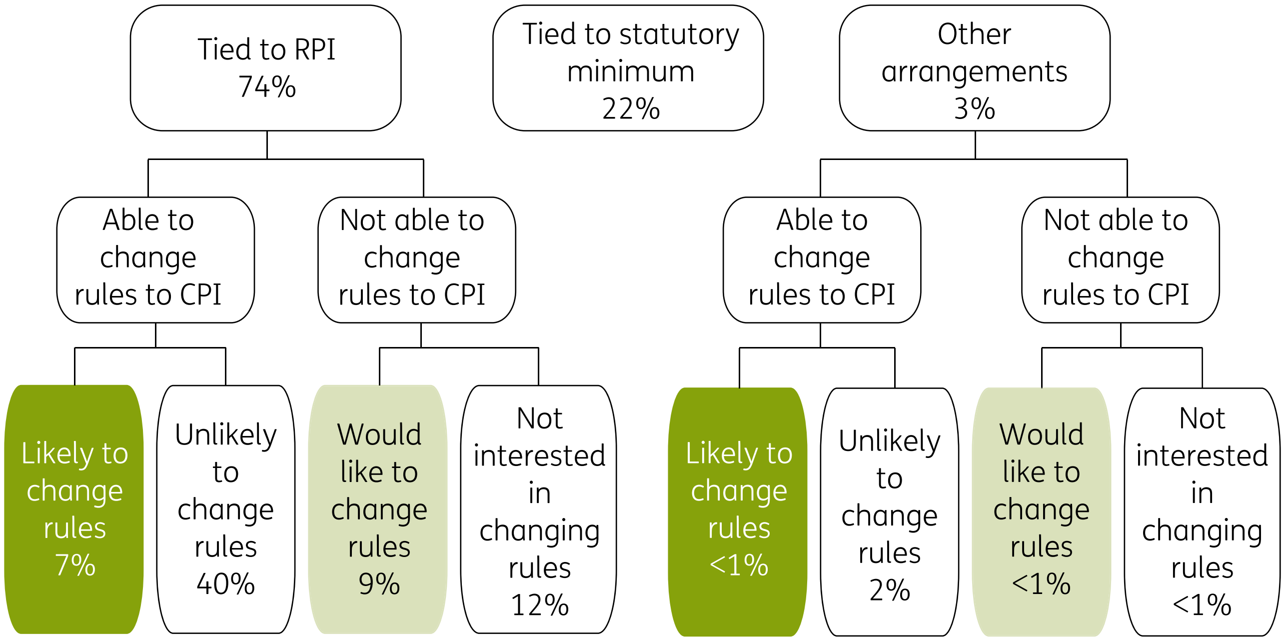
Base: All schemes (200).
NB: Will not sum to 100% due to don't know responses.

3.5 Indexation – membership overview

Having looked at the overview of indexation on a scheme basis, Figure 3.5 shows the same diagram, but based on the population of all members.

Around seven per cent of all members (which equates to approximately 1.1 million members) are in schemes referencing RPI that are anticipating moving to CPI (where schemes do not perceive there to be any barriers to doing so). These are the members represented by the dark green boxes.

Figure 3.5 Indexation – membership overview



Weighted base: All members (15,029,480).
Unweighted base: All members (280,848).

NB: Will not sum to 100% due to don't know responses.

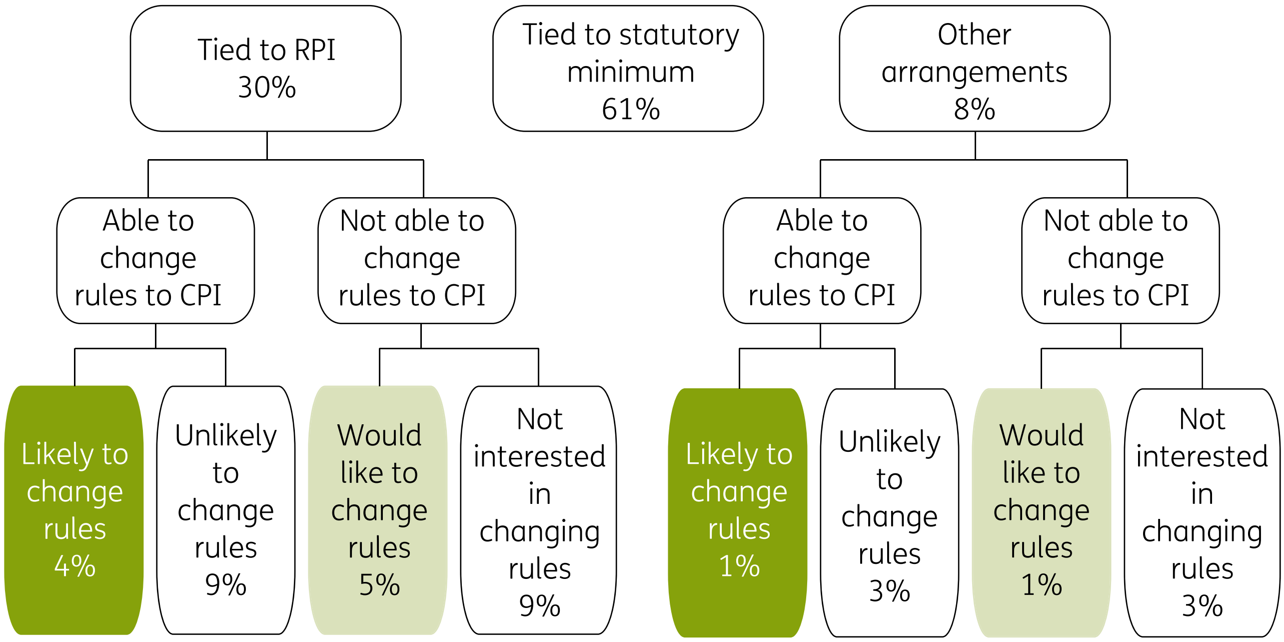
3.6 Revaluation – scheme overview

Moving onto the rules surrounding revaluation, Figure 3.6 shows the same type of analysis based on all schemes.

At an overall level, four per cent of all schemes that are currently linked to RPI for the revaluation of deferred pensions are currently able to modify their scheme rules and are likely to do so. A further one per cent have other arrangements in place, believe they have the ability to change to adopt CPI and feel they are likely to do so.

A further five per cent of all schemes state they would like to change the tie to RPI but do not currently have the power to this.

Figure 3.6 Revaluation – scheme overview



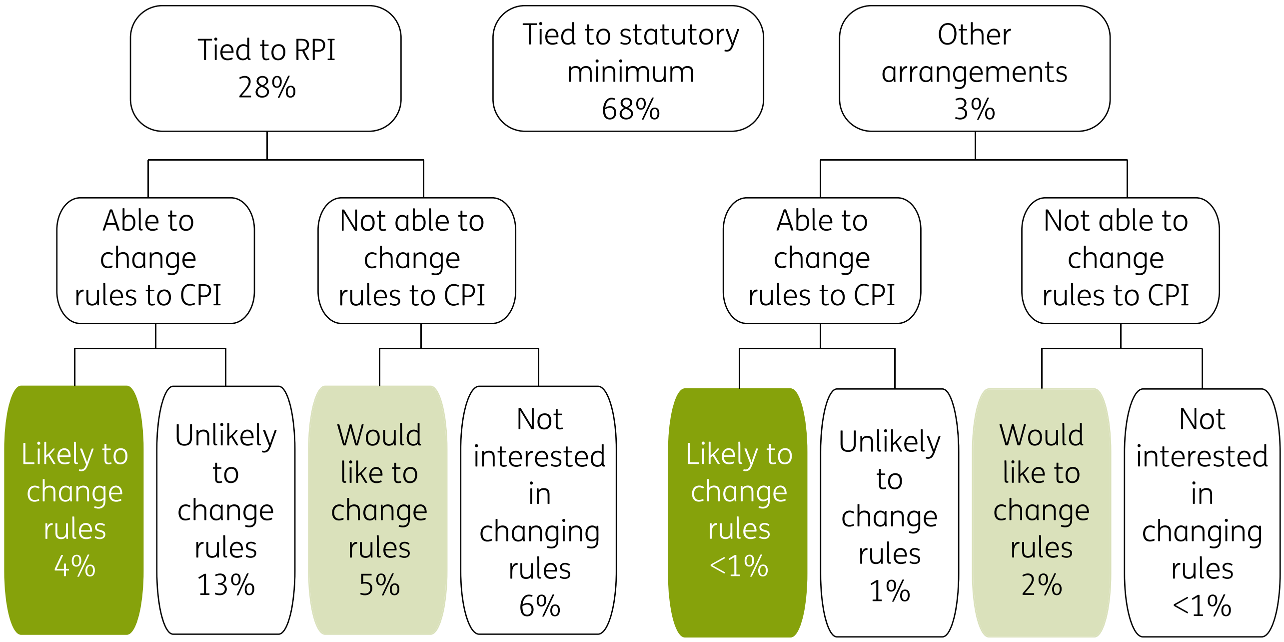
Base: All schemes (200).
NB: Will not sum to 100% due to don't know responses.

3.7 Revaluation – membership overview

Figure 3.7 shows how members may be impacted by schemes' decisions with regards to the rules surrounding the revaluation of deferred pensions.

This shows that the proportion of members likely to be impacted by schemes moving from RPI to CPI for revaluation is broadly in line with the scheme-based figures, i.e. four per cent of members are in schemes that envisage that they will make this adjustment.

Figure 3.7 Revaluation – membership overview



Weighted base: All members (15,029,480).
Unweighted base: All members (280,848).

NB: Will not sum to 100% due to don't know responses.

4 Evaluation measures taken to date

This chapter explores the action that schemes have taken since the announcement in July and consultation exercise in late 2010.

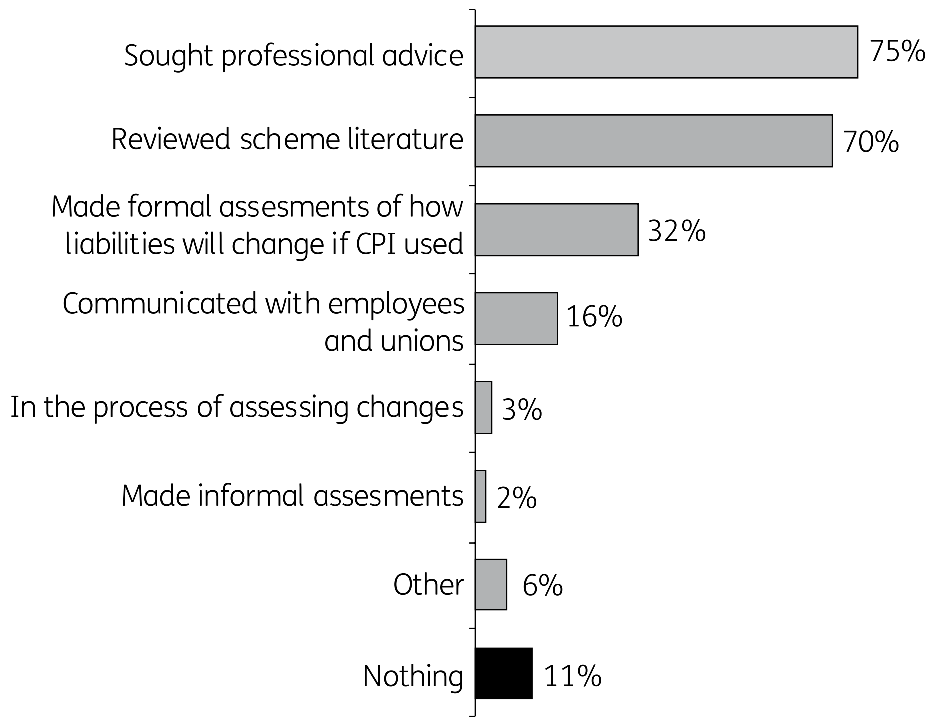
4.1 Overview of actions taken to date

As Figure 4.1 shows, most schemes have taken some form of action since hearing about the changes (only 11 per cent of schemes have done nothing).

The most common actions taken are seeking professional advice and reviewing the scheme literature. Three-quarters (75 per cent) of all schemes have sought professional advice and 70 per cent have undertaken a formal review of literature since hearing about the planned changes. A further 16 per cent of schemes have directly communicated with their employees and/or unions about the changes.

Almost a third (32 per cent) of schemes have made formal assessments of how liabilities will change if the Consumer Prices Index (CPI) is used instead of the Retail Prices index (RPI). A minority (three per cent) were currently in the process of assessing what impact the changes may have when at the time of interview (late January to early February 2011).

Figure 4.1 Actions taken as a result of hearing about the changes[13]



Base: All schemes (200).

13 This was a multi-coded question where schemes could code all that apply – percentages will sum to more than 100.

There are large differences by size of scheme (Table 4.1) with the largest schemes most likely to have taken action. Nearly all (98 per cent) of the largest schemes (5,000+ members) had taken some form of action compared with 79 per cent of the smallest schemes (12 to 99 members).

The largest schemes were particularly more likely to have sought professional advice (98 per cent), have reviewed scheme literature (80 per cent) and communicated with employees and trades unions (39 per cent).

They were also more likely to have made formal assessments of the impact of liabilities (43 per cent compared with only 20 per cent of the smallest schemes).

Table 4.1 Actions taken by size of scheme[14]

	All schemes %	12-99 members %	100-999 members %	1,000-4,999 members %	5,000+ members %
Sought professional advice	75	63	[77]	87	[98]
Reviewed scheme literature	70	54	[79]	75	[80]
Made formal assessments of how liabilities will change if CPI used	32	20	[36]	41	[43]
Communicated with employees and unions	16	2	[19]	27	[39]
In the process of assessing the changes	3	-	[4]	6	[-]
Made informal assessments	2	-	[2]	6	[4]
Other	6	4	[9]	2	[6]
Nothing	11	21	[6]	4	[2]
Base:	*200*	*52*	*[47]**	*52*	*[49]**

* NB Small base size under [50].

4.2 Formal liabilities assessments

All schemes that stated they had made formal assessments of liabilities since hearing of the change were asked about the result of this assessment.

For the majority of schemes (82 per cent) the assessment had shown that liabilities would decrease as a result of the change to CPI from RPI (Table 4.2). As would be expected – among schemes currently linked to statute – the proportion is higher (94 per cent).

The remaining schemes were evenly split between those where the assessment has shown liabilities would remain the same and those where it was too early to say (nine per cent respectively). No schemes' assessments had shown that liabilities would increase.

14 This was a multi-coded question where schemes could code all that apply – percentages will sum to more than 100.

Table 4.2 Whether assessment shows liabilities will increase or decrease

Liabilities	%
Decrease	82
No change	9
Don’t know	9
Base: All schemes that have formally assessed scheme liabilities	*71*

Table 4.3 shows the size of the decrease expected by those schemes that conducted formal assessments and anticipated a decline in liabilities.

Although the base size is relatively small (59) and should be treated with a degree of caution the data indicate that there would be an average £3.4 million reduction in liabilities across schemes who anticipate a decrease should the change to CPI be made.

Table 4.3 Expected decrease in liabilities

Reduction in liabilities	%
£25m+	22
£1.25m – £24.9m	18
Less than £1.25m	52
Don’t know	8
MEAN	£3.4m
Base: All schemes that have formally assessed scheme liabilities and expect them to decrease	59

The remaining schemes (68 per cent) that had not formally reviewed assessments were asked if and when they would conduct such an assessment.

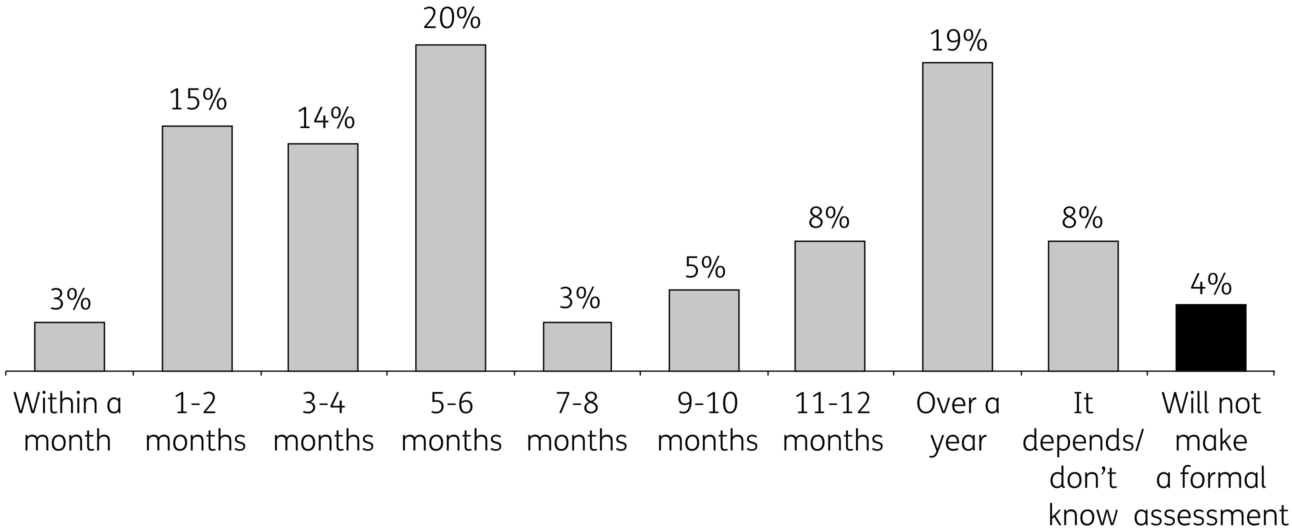
As Figure 4.2 shows, schemes were divided into those that anticipated making a formal assessment within the next six months (52 per cent) and those that planned on making an assessment in over six months time (35 per cent).

A further 12 per cent of schemes were unsure if or when a formal assessment would be made.

Schemes specifically referencing RPI (whether this is for indexation or revaluation) were significantly more likely to envisage undertaking the review later. Around a quarter (25 per cent) of schemes linked to RPI for indexation and 30 per cent tied to RPI for revaluation stated that they would not be conducting assessments for at least a year. Schemes tied to the statutory minimum were more likely to envisage conducting a formal assessment of liabilities in the short to medium term.

Given the changes announced in 2010 could in theory have an immediate impact on schemes linked to statute; it is not surprising they envisage conducting these assessments in the near future.

Figure 4.2 Expected timeframes for formal assessments



Base: All schemes that have not made a formal assessment (129).

4.3 Reviewing scheme literature

The seven in ten (70 per cent) schemes that stated they had conducted a formal review of scheme literature (again more likely to be larger schemes) since hearing about the changes were also asked whether they had identified any issues that might cause complications

Almost a third (32 per cent) of schemes that had conducted a review of literature identified issues that may cause complications. When probed[15] as to what these issues were, the most common problem was that the literature available to employees/unions referenced RPI when the scheme rules do not. In cases such as these schemes often cited the fact that the intention had always been to reference the statutory minimum, but RPI had 'worked its way' into scheme literature.

Although some of these schemes felt it would be legally possible to change their rules, they were concerned about the potential for a negative reaction from members. A selection of anonymous quotes from schemes illustrating these points is included below:

> *'It refers to statutory and then goes on refer to what statutory was at that time i.e. index being RPI.'*
>
> *'Some of the leader statements in the past have referred to RPI in the literature. So the change to CPI may make older members unhappy.'*
>
> *'It's misleading; the description of the statutory increase has been unclear.'*

[15] Although this survey was quantitative in nature, given the relatively low base size at this question (48) and the fact that respondents gave detailed verbatim answers (the question was open ended) results are described qualitatively by themes emerging.

5 Scheme security

This chapter looks at scheme security, beginning with the impact of the proposed changes on schemes' likelihood to remain open. It then goes on to explore whether schemes expect that the scheme will be more or less secure as a result of the planned changes.

5.1 Likelihood of schemes to remain open

As highlighted in the profiling chapter, only a minority (15 per cent) of schemes are still open to new members. These schemes were asked about the likelihood of the scheme to remain open, but as the base size is relatively small (38) findings below should be treated with caution.

Around two-thirds stated that it is very or fairly likely that their scheme will remain open in the future.

A third of the schemes that are still open state they are more likely to remain open as a result of the change to Consumer Prices Index (CPI) for the statutory minimum (most do not feel it will make any difference).

The schemes that are more likely to remain open as a result of the change state that this is because liabilities and risk will be reduced.

5.2 Future funding position of the scheme

All schemes were asked whether the changes announced in 2010 will make the scheme funding position more or less secure in the future. As Figure 5.1 shows, almost seven in ten (69 per cent) schemes feel the change will make the funding position more secure (the majority feel it would be slightly more secure – 65 per cent).

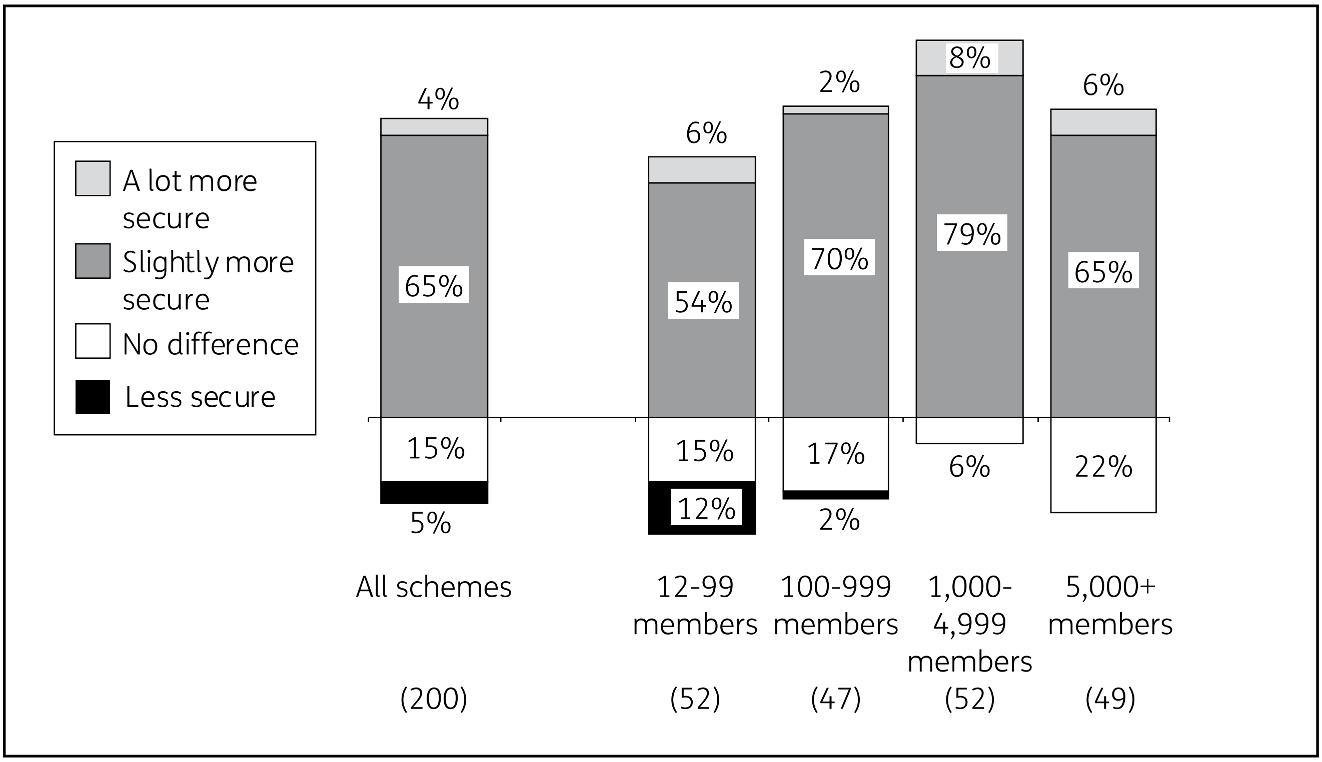
Larger schemes were particularly likely to feel that the funding position would be more secure. Reflecting this, about 74 per cent of all members (approximately 11 million people) are in schemes which feel they will be more secure as a result of the changes[16].

The 15 per cent of schemes that feel the change will make no difference generally state that they are unable to change the scheme rules.

A minority (five per cent) of schemes feel that the change will make their scheme less secure.

[16] This finding is indicative and is based on membership analysis.

Figure 5.1 Future funding position



6 Conclusions

The overall aim of this survey of defined benefit (DB) pension schemes was to explore the effect of changing the statutory revaluation and indexation from the Retail Prices index (RPI) to the Consumer Prices Index (CPI). This was a relatively small-scale exercise designed to obtain an early indication of the way in which DB pension schemes might respond to the changes. This report has focused on:

- schemes' current rules around indexation and revaluation;
- whether schemes expect to make any changes to revaluation and indexation of accruals as a result of the announcement; and
- whether schemes have assessed the likely impact for them of the change from RPI to CPI.

It is important to note that due to the overall small sample size it is not possible to report, with confidence, the effect the change to CPI will have on members. The report does present figures, but these should be viewed with caution.

While only a minority of schemes have rules that directly link both indexation and revaluation to statute, the survey found that among those schemes whose rules make explicit reference to RPI there is little appetite to move to CPI if they were in a position to do.

6.1 Current rules

The effect of the change from RPI to CPI on individual schemes and their members will be largely dependent on the nature of their existing scheme rules. The survey found that a minority of schemes (16 per cent) are linked to statute for both indexation and revaluation. These schemes account for a comparable proportion of scheme members (18 per cent).These schemes could now therefore, be expected to use CPI to revalue and index pension rights.

Around three in ten (29 per cent) DB schemes have rules that link both indexation and revaluation to RPI explicitly. These schemes represent around 24 per cent of DB scheme members. A further 39 per cent (representing around 49 per cent of members) are linked to statute for revaluation and to RPI for indexation. The remaining schemes have other arrangements in place.

The majority of schemes impose caps on the level of indexation and revaluation, 87 per cent place caps on indexation and 67 per cent place caps on revaluation. Caps were more likely to be in place where the scheme rules reference RPI.

6.2 Discretion and likelihood to change rules

Overall, around half of schemes whose rules reference RPI state that they either have provision to change their rules to adopt an alternative measure for pension increases or that they could do so without a change to their rules (53 per cent of schemes who reference RPI for indexation and 45 per cent in the case of revaluation).

However, only a minority of these schemes who could theoretically make changes believe they are likely to do so. Sixteen per cent of schemes which reference RPI for indexation and have provision to change their rules state they would be likely to move to CPI. These schemes represent about seven per cent of all members. A slightly higher proportion (30 per cent) of those schemes which reference RPI for revaluation state that they can and would be likely to move to CPI (representing four per cent of members).

6.3 Measures taken to date

The majority of schemes have sought professional advice (75 per cent) and reviewed their scheme literature (70 per cent) since hearing about the changes. One-third (32 per cent) of those schemes that have reviewed their literature believe it could cause some complications with scheme members.

One-third (32 per cent) of schemes have made formal assessments of how liabilities will change if CPI is used as the measure of inflation. Of these schemes, the vast majority (82 per cent) have calculated that their liabilities will decrease. This research was conducted soon after the Government announced its intention to change to CPI, therefore we expect that formal assessments would increase over time.

6.4 Scheme security

The majority of schemes (69 per cent) believe the funding position of their scheme will be more secure as a result of the decision to use CPI as the basis for setting the statutory minimum for indexation and revaluation. Around three-quarters (74 per cent) of members are part of schemes that indicate they would be more secure.

Appendix A
Technical appendix

Methodology

A 25-minute telephone survey was conducted with 200 defined benefit (DB) scheme managers and administrators between 17 January and 7 February 2011 by IFF Research Ltd.

A very short pilot of ten interviews was also conducted between 28 October and 29 October 2010 to test the questionnaire. A few minor changes were made to the wording to ensure questions were salient as a result of the pilot but no major changes in the general approach were required.

All respondents had responsibility for managing schemes (in most cases this was the secretary to the trustees or the pension scheme manager). Only DB schemes with more than 11 members were included in the study. This is because schemes with fewer than 12 members represent a very small proportion of the total DB membership – the scope of this study was to focus on schemes which represent the majority of all members.

Hybrid and sectionalised schemes were included in the study, in these instances scheme managers answered with regards to the largest DB section of the scheme (i.e. the section with the most members).

To maximise response and provide respondents with more information about the study all scheme managers were written to in advance of the study. The letter also gave schemes the opportunity to provide IFF with the most appropriate person to contact. In addition, schemes were given the opportunity to opt out of the research.

In terms of the interview itself, given the complexity and factual nature of the of the subject matter a two-stage process was adopted whereby respondents were invited to take part in the study and screened to ensure eligibility. They were then offered a datasheet (either in hard copy or by e-mail) outlining the types of questions asked in the survey. In addition, a copy of the question set was made available on a secure website to potential respondents. The questionnaire and datasheets used are included in this appendix.

For convenience, respondents were offered appointments for the interview to take place at a later date once they had been able to collate the necessary information.

Schemes were selected from The Pensions Regulator's (TPR) database of schemes. TPR's register of pension schemes contains information collected through a scheme return or online via Exchange. Trustees and managers of pension schemes have a legal obligation to supply TPR with information about their scheme. The information is shared with the Pension Protection Fund, DWP and the Pension Tracing Service.

A stratified random sampling approach was used with records selected on a '1 in n' basis from within each sizeband.

Sample structure

The 200 interviews were stratified by scheme size and Table A.1 shows the structure of the achieved interviews (a relatively even split was achieved across the four size categories used to stratify the sample).

Table A.1 Achieved sample

Number of scheme members	Achieved sample	Achieved sample profile %
12 to 99	52	26
100 to 999	47	24
1,000 to 4,999	52	26
5,000+	49	25

The largest schemes were over-sampled, this is because although large schemes are fewer in number they represent the majority of DB members and it is therefore important that these schemes are covered in sufficient detail for meaningful sub-group analysis.

Weighting strategy and analysis

Given larger schemes have been over sampled it is therefore necessary to apply a weight to ensure findings are representative of the scheme population as a whole. To this end, data were weighted to be representative of all DB schemes with more than 11 members (again using the most up to date statistics from TPR's pension scheme register). The population of schemes used to weight is shown in the Table A.2.

Table A.2 Scheme weighting profile

Number of scheme members	Total number of schemes	Weighted sample profile %
12 to 99	2,553	34.4
100 to 999	3,416	46.0
1,000 to 4,999	976	13.2
5,000+	475	6.4
Total	**7,420**	**100**

Indicative predictions of the impact the changes may have on members have also been produced in this report using a secondary exercise to weight findings to the profile of scheme membership (again using statistics from TPR's pension scheme register). This is of interest as it allows us to provisionally show the proportion (or estimated number) of members that may be affected by the changes announced in 2010.

Table A.3 Membership weighting profile

Number of scheme members	Total number of schemes	Weighted sample profile %
12 to 99	122,656	0.8
100 to 999	1,204,927	8.0
1,000 to 4,999	2,182,587	14.5
5,000+	11,519,310	76.7
Total	**15,029,480**	**100**

However, the membership analysis in this report should be treated with caution. This is because a relatively small proportion (25 per cent) of interviews were conducted with schemes that have over 5,000 members, yet as the table above shows, these schemes represent over three-quarters (77 per cent) of all members.

This means a high weighting factor has been applied to these schemes – in effect, the answers of the 50 largest schemes taking part in the survey have been given greater 'importance' over the other 150 schemes that took part in the survey.

Response rates

The following table shows the outcomes of sample issued for study. A large proportion of available sample (935) was held back and not loaded owing to the relatively high response rates achieved.

The response rate of those in scope for fieldwork was 52 per cent. Based on all in scope for the study (i.e. including unobtainable numbers and records where it was not possible to get through to the correct respondent in the time available) the response rate was 34 per cent.

Table A.4 Response rates

	Total	Total in scope for study %	Total in scope for fieldwork %
Total amount of sample issued	**2,027**		
Ineligible – used for pilot	43		
Ineligible – not DB scheme 12+ members	24		
Ineligible – duplicate contacts/schemes	431		
Sample not loaded into CATI (not needed during fieldwork)	935		
Total in scope for main stage study	**594**	**100**	
Business called several times, but unable to reach target respondent	148	25	
Not available in fieldwork period	15	3	
Unobtainable number	49	8	
Total in scope for fieldwork	**382**	**64**	**100**
Complete	200	34	52
Refusal on contact	59	10	15
Opt out refusals	123	21	32
Response rate		**34**	**52**

Research materials

The following section of this appendix shows:

- A: The initial letter sent to all schemes.
- B: The datasheet which could be provided on request (either by e mail or on a secure website).
- C: The questionnaire.

A: Initial letter sent to all schemes

Research to explore the implication of the government's decision to use CPI as the measure of inflation

Dear Sir/Madam

The Department for Work and Pensions (DWP) has commissioned IFF Research, an independent company, to undertake research to explore the implications of the government's decision to use CPI rather than RPI as the basis for calculating the statutory minimum for revaluation and indexation of defined benefit schemes such as the [SCHEME] which you administer.

You may have seen the Consultation paper which was published on 8th December 2010 outlining the impact this decision may have on indexation and revaluation. The paper can be found at the following website: http://www.dwp.gov.uk/docs/cpi-private-pensions-consultation.pdf

Your scheme has been selected at random from the Pension Regulator's database of defined benefit occupational schemes and we are contacting you for research purposes only. This is an opportunity for you to tell us how the change will impact on your scheme and your responses will help us to understand more about how the change is likely to affect the private pensions landscape more broadly.

The study is being conducted by IFF Research and will involve telephone interviews with scheme administrators or trustees during January. After a short screening process the interview will last about 25 minutes and will focus on:

- scheme details (total liabilities and number of members that are deferred, active and pensioner members);
- the scheme rules in relation to the indexation of pensions in payments (including any restrictive caps);
- the scheme rules in relation to the revaluation of deferred pensions payments (including any restrictive caps); and
- whether you envisage changing the scheme rules.

As the person responsible for administrating the scheme, we believe you are the most appropriate person to speak to. However, if you consider another person is better placed to help us, we would be grateful if you could pass this letter on to them.

Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. The research findings will not identify you and no personal information will be shared with any third parties.

We hope you will participate in this important study, but if you do not want to take part then please let the IFF research team know by calling free phone xxxx xxxxxxx or by emailing xxxxxx xxxxxxx (Research Executive) xxxxxxxx@iffresearch.com. Please quote the reference number at the top of this letter along with your full name and organisation address. The deadline for opting out is 14 January 2011.

You can also contact xxxxxx xxxxx, at IFF Research at the email address above or on xxx xxxx xxxx, if you have any questions about the research. If you want to verify the authenticity of this research, please contact xxxxx xxxx, at DWP on xxxx xxx xxxx.

Many thanks

B: Datasheet provided on request

Research to explore the effect of using CPI as the basis for statutory minimum revaluation and indexation of pensions

This document outlines the key information we will be collecting during the interview. Please don't send this form back to us, it is for reference only.

Please have this data sheet to hand when we call.

If the scheme is sectionalised for the purposes of this survey we'd like you to answer in relation to the largest section of the DB scheme, i.e. the section that has the most members.

Q1 SCHEME DETAILS	
Year scheme was established	Write in year
Approximate total value of assets in the scheme	Write in £
Approximate liabilities of the scheme (on a technical provisions basis)	Write in £
Number of active members	Write in number
Number of deferred members	Write in number
Number of pensioner members	Write in number

Q2a SCHEME RULES – LEVEL OF INCREASE				
Thinking about the scheme rules in relation to:	A: Indexation of pensions in payment		B: Revaluation of deferred pensions	
A: The indexation of pensions in payment; and	*Please tick one only*		*Please tick one only*	
B: The revaluation of deferred pensions	☐	Statutory minimum	☐	Statutory minimum
	☐	RPI	☐	RPI
Do scheme rules state they are to be increased by the statutory minimum, RPI or set at another amount	☐	Set at another amount	☐	Set at another amount

<table>
<tr><th colspan="5">Q2b SCHEME RULES – RESTRICTIVE CAPS</th></tr>
<tr><td rowspan="4">Thinking about the scheme rules in relation to:

A: The indexation of pensions in payment; and

B: The revaluation of deferred pensions

Do scheme rules place a cap on increases?</td><td colspan="2">A: Indexation of pensions in payment</td><td colspan="2">B: Revaluation of deferred pensions</td></tr>
<tr><td colspan="2">Please tick one only</td><td colspan="2">Please tick one only</td></tr>
<tr><td>☐</td><td>Yes</td><td>☐</td><td>Yes</td></tr>
<tr><td>☐</td><td>No</td><td>☐</td><td>No</td></tr>
</table>

<table>
<tr><th colspan="5">Q2b SCHEME RULES – RESTRICTIVE CAPS</th></tr>
<tr><td rowspan="3">If your scheme has restrictive caps on increases on:

A: The indexation of pensions in payment; and

B: The revaluation of deferred pensions

What percentage level were/are these capped at?</td><td colspan="2">A: Indexation of pensions in payment</td><td colspan="2">B: Revaluation of deferred pensions</td></tr>
<tr><td>Prior to 6 April 2005</td><td>Write in %</td><td>Prior to 6 April 2009</td><td>Write in %</td></tr>
<tr><td>Since 6 April 2005</td><td>Write in %</td><td>Since 6 April 2009</td><td>Write in %</td></tr>
</table>

<table>
<tr><th colspan="5">Q3 DISCRETION</th></tr>
<tr><td rowspan="4">Thinking about the scheme rules in relation to:

A: The indexation of pensions in payment; and

B: The revaluation of deferred pensions

Have trustees ever exercised discretion to exceed requirements in the scheme rules?</td><td colspan="2">A: Indexation of pensions in payment</td><td colspan="2">B: Revaluation of deferred pensions</td></tr>
<tr><td colspan="2">Please tick one only</td><td colspan="2">Please tick one only</td></tr>
<tr><td>☐</td><td>Yes</td><td>☐</td><td>Yes</td></tr>
<tr><td>☐</td><td>No</td><td>☐</td><td>No</td></tr>
</table>

Q4a Implication of the decision				
Thinking about the scheme rules in relation to: *A: The indexation of pensions in payment; and* *B: The revaluation of deferred pensions* Would scheme rules need to be changed to allow you to use CPI for indexation and revaluation?	A: Indexation of pensions in payment		B: Revaluation of deferred pensions	
	Please tick one only		*Please tick one only*	
	☐	Yes	☐	Yes
	☐	No	☐	No

Q4b Implication of the decision - LIABILITIES		
Since hearing about the decision have you made formal assessments of how liabilities would change if your scheme was linked to CPI	*Please tick one only*	
	☐	Yes
	☐	No

Q4b Implication of the decision - LIABILITIES	
Since hearing about the decision have you made formal assessments of how liabilities would change if your scheme was linked to CPI	Yes
	No

Q4c Implication of the decision - LIABILITIES	
If your scheme has made formal assessments on how the liabilities would change – how much do you think they will change by? *NB: You can answer either as a percentage change in total liabilities or as the total value (£) they will change by.*	Write in £ liabilities will change by
	Write in % change of total liabilities

C: Questionnaire

S Screener

IF HAVE CONTACT NAME FROM SAMPLE

S1 Good morning/afternoon, my name is [NAME]. I'm calling from IFF Research, an independent research agency.

We are conducting a study on behalf of DWP about the implication of the government's decision to use CPI rather than RPI as the measure of inflation for calculating the statutory minimum by which private DB schemes must index pensions in payment or revalue deferred pensions. This is a very high profile study which offers you the opportunity to influence government policy.

You may have seen the Consultation paper which was published on 8 December 2010 outlining the impact this decision may have on indexation and revaluation.

We are calling specifically with regard to [SCHEME NAME, FROM SAMPLE], which is registered as scheme number [SCHEME PSR NUMBER, FROM SAMPLE]. Can I please speak to [CONTACT NAME]?

DWP and IFF Research recently wrote a letter to [CONTACT NAME] regarding this study

Transferred	1	CONTINUE
Hard appointment	2	MAKE APPOINTMENT
Soft Appointment	3	
Named contact no longer works here	4	ASK S3
Refusal	5	THANK AND CLOSE
Not available in deadline	6	THANK AND CLOSE
Unobtainable/wrong number	7	
Business closed down	8	
Business moved	9	
Residential line	10	
Fax Line	11	
Engaged	12	CALL BACK LATER

IF HAVE NO CONTACT NAME FROM SAMPLE

S2 Good morning/afternoon, my name is [NAME]. I'm calling from IFF Research, an independent research agency.

We are conducting a study on behalf of DWP about the implication of the government's decision to use CPI rather than RPI as the measure of inflation for calculating the statutory minimum by which private DB schemes must index pensions in payment or revalue deferred pensions.

This is a very high profile study which offers you the opportunity to influence government policy.

You may have seen the Consultation paper which was published on 8th December 2010 outlining the impact this decision may have on indexation and revaluation.

We are calling specifically with regard to [SCHEME NAME, FROM SAMPLE], which is registered as scheme number [SCHEME PSR NUMBER, FROM SAMPLE]. Could you put me through to the person with overall responsibility for administering this scheme on behalf of the company?

DWP and IFF Research recently wrote a letter which was addressed to the chair of the trustee board/scheme manager regarding this study.

ADD IF NECESSARY: This may be the Chair of the Trustee board, or pension scheme manager.

Transferred	1	CONTINUE
Hard appointment	2	MAKE APPOINTMENT
Soft Appointment	3	
Refusal	4	THANK AND CLOSE
Not available in deadline	5	THANK AND CLOSE
Unobtainable/wrong number	6	
Business closed down	7	
Business moved	8	
Residential line	9	
Fax Line	10	
Engaged	11	CALL BACK LATER

IF NAMED CONTACT NO LONGER WORKS THERE (S1=4)

S3 Can I take the name of the person it would be most appropriate to speak to?

Yes – RECORD NAME AND JOB TITLE	1	ASK TO TRANSFER AND RE INTRODUCE SURVEY (S2)
No	2	THANK AND CLOSE

WHEN THROUGH TO CORRECT RESPONDENT

S4 Good morning/afternoon, my name is [NAME]. I'm calling from IFF Research, an independent research agency.

We are conducting an important study on behalf of DWP about the implication of the government's decision to use CPI rather than RPI as the basis for calculating the statutory minimum by which private DB schemes must index pensions in payment or revalue deferred pensions. This is a very high profile study which offers you the opportunity to influence government policy.

You may have seen the Consultation paper which was published on 8th December 2010 outlining the impact this decision may have on indexation and revaluation.

We are calling specifically with regard to [SCHEME NAME, FROM SAMPLE], which is registered as scheme number [SCHEME PSR NUMBER, FROM SAMPLE].

You should have received a letter from the DWP/us about this study,

There is a short screening section covering your involvement with the scheme and its general characteristics, which takes about five minutes. This is then followed by the main questionnaire which takes around 25 minutes to complete. You can either complete both together, or if it is more convenient, complete them separately.

Is now a convenient time for you to answer some questions or would you prefer we make an appointment for another time?

IF NECESSARY: I would like to assure you that all the information we collect will be kept in the strictest confidence and used for research purposes only. We will not pass any of your details onto any other companies. It will not be possible to identify any individual or individual company in the results that we report to DWP and the answers you give will not be traced back to you.

ADD IF NECESSARY: This study aims to understand the implication of the Government's decision to use CPI rather than RPI as the measure of inflation for the statutory minimum level of indexation and revaluation required by pension schemes such as yours.

Continue	1	CONTINUE
Hard appointment	2	MAKE APPOINTMENT
Soft appointment	3	
Request letter is re sent	4	ASK S5
Scheme is not a DB scheme	5	THANK AND CLOSE
Refusal	6	THANK AND CLOSE

IF REQUEST LETTER (S4=4)

S5 Would you prefer us to re-send it by e-mail or post?

E-mail	1	TAKE E-MAIL ADDRESS AND MAKE APPOINTMENT TO CALL BACK
Post	2	CHECK ADDRESS AND MAKE APPOINTMENT TO CALL BACK

S6 **Thank you for your help. Before we begin, can I just check, do you have overall responsibility for administering the** [SCHEME NAME, FROM SAMPLE]**, on behalf of the company?**

Yes	1	GO TO S8
No	2	ASK S7

IF NOT CORRECT PERSON (S6=2)

S7 **Can I take the name of the person it would be most appropriate to speak to?**

Yes – RECORD NAME AND JOB TITLE	1	ASK TO TRANSFER AND RE INTRODUCE SURVEY (S2)
No	2	THANK AND CLOSE

ASK ALL

S8 And which of the following best represents your role with regards to [SCHEME NAME]**?**
READ OUT – CODE ALL THAT APPLY

Lay Trustee	1	
Professional trustee	2	
Director of a company that is a trustee	3	
Pension Scheme Lawyer	4	
Pension Scheme Actuary	5	
Pension Scheme Auditor	6	
IFA or Benefit Consultant	7	
Pension Scheme Manager	8	
In-house Pensions scheme administrator (i.e. responsible for the day to day administration of your organisation's scheme)	9	
Secretary to the trustees	10	
Third party administrator	11	
Other (Write in)	12	

ASK ONLY IF A LAY TRUSTEE (S8=1)

S9 **And which of the following best describes your role as a lay trustee?**
READ OUT – CODE ALL THAT APPLY

Chairman of the board of trustees	1	
Chairman of one of the subcommittees	2	
Longest-serving trustee	3	
Finance Director of the sponsoring employer	4	
Managing Director of the sponsoring employer	5	
Other board director of the sponsoring employer	6	
Other lay trustee	7	
Employer-nominated trustee (ENT)	8	
Employer-nominated director (END)	9	
Member-nominated trustee (MNT)	10	
Member-nominated director (MND)	11	
Other (Write in)	12	

ASK ALL

S10 **And thinking about** [SCHEME NAME]**, can I just check that it is a Defined Benefit scheme?**

IF NECESSARY: By Defined Benefit I mean that it is a final salary, career average or cash balance scheme .For the purposes of our survey both hybrid and sectionalised DB schemes are being included.

Yes	1	ASK S11
No	2	THANK AND CLOSE

S11 **And what type of scheme is it? Is it a…**
READ OUT – CODE ONE ONLY

DB only scheme	1	
Sectionalised scheme – where members are entitled to only DB benefits in any individual section	2	
Hybrid	4	
Something else	3	Thank and close

IF THE SCHEME IS SECTIONALISED (S11=2)

S12 **Are scheme rules regarding indexation and revaluation the same for all DB sections of the scheme?**

Yes	1	
No	2	

IF THE SCHEME IS SECTIONALISED AND SCHEME RULES DIFFERENT (S12=2) ADD FOLLOWING TEXT:

For the purposes of this survey we'd like you to answer in relation to the largest section of the DB scheme, i.e. the section that has the most members.

ASK ALL

S13 **How many members does** [ADD IF S12=2 the largest section of] [SCHEME NAME] **have in the UK, including all active, deferred and pensioner members?**

PROMPT WITH RANGES

1-11 members	1	THANK AND CLOSE
12-29 members	2	QUOTA 1: 50
30-99 members	3	
100-199 members	4	QUOTA 2: 50
200-999 members	5	
1,000-4,999 members	6	QUOTA 3: 50
5,000-9,999 members	7	QUOTA 4: 50
10,000+ members	8	

S14 **And how would you describe the current status of** [SCHEME NAME]**? Is it..?**
READ OUT. CODE ONE ONLY

Open to new entrants	1	
Closed to new entrants	2	
Frozen or paid up	3	
In the process of winding up	4	
Wound up/terminated	5	THANK AND CLOSE
In the process of merging/recently merged with another scheme	6	
DO NOT READ OUT: Don't know	7	

S15 Thank you very much for your time, that completes the screening exercise. As mentioned in the letter DWP sent, we'd like to talk to you in some detail about your schemes rules for uprating and revaluing benefits – is this information that you'd have to hand so that we can conduct the interview now or would it be better if we called you back?

ADD IF NECESSARY: I'd like to discuss the specific scheme rules relating to the indexation and revaluing of benefits. This will involve checking what percentage pensions in payment and revaluations for deferred members are increased by.

ADD IF NECESSARY: If you'd prefer to look at the types of questions we will be asking before deciding please visit this secure website ***http://survey.iffresearch.com/DWPinquiry***

Happy to continue	1	Got to A1
Arrange time to call back	2	ASK S16

S16 That's not a problem. In advance of our call we'll send you an e mail highlighting the types of questions we'll be asking you. Can I just confirm the following details?

Name:	
Job title:	
E- mail:	
Direct line telephone number:	
ARRANGE HARD APPOINTMENT TIME	

Re contact

ASK ALL CALL BACKS FROM S15

S17 Good morning/afternoon. My name is NAME and I'm calling from IFF Research. Please can I speak to [INSERT NAME]?

Transferred/respondent answers	1	CONTINUE
Hard appointment	2	MAKE APPOINTMENT
Soft Appointment	3	
Engaged	4	CALL BACK
No reply/Answer phone	5	

S18 Good morning/afternoon, my name is NAME, calling from IFF Research, an independent market research company. I understand you spoke to my colleague on [INSET DATE] and agreed to take part in a very important study we are conducting for DWP.

Would now be good time to conduct the interview?

ADD IF NECESSARY: The interview will take around 25 minutes to complete and covers some specific questions about your scheme rules. You should have been sent a data sheet in advance about the topics we will cover

ADD IF NECESSARY: Your participation is very important in helping DWP understand more about how the change is likely to affect the pensions landscape.

ADD IF NECESSARY: This study aims to understand the implications of the government's decision to use CPI rather than RPI to set the statutory minimum level for indexation and revaluation of pensions

ADD IF NECSSARY: You may have seen the Consultation paper which was published on 8 December 2010 outlining the impact this decision may have on indexation and revaluation.

INTERVIEWER NOTE: IF RESPONDENT STATES THEY HAVE NOT HAD CHANCE TO FILL IN OR LOOK AT THE DATASHEET MAKE APPOINTMENT TO CALL BACK

Continue	1	CONTINUE
Hard appointment	2	MAKE APPOINTMENT
Soft appointment	3	
Refusal	4	THANK AND CLOSE

REASSURANCES TO USE IF NECESSARY

The interview will take around 25 minutes to complete.

Please note that all data will be reported in aggregate form and your answers will not be reported to our client in any way that would allow you to be identified.

If respondent wishes to confirm validity of survey or get more information about aims and objectives, they can call:

- MRS: Market Research Society on 0500396999
- IFF:
- DWP:

S19 You should have been sent a datasheet in advance of this call specifying the types of questions we will be covering surrounding your schemes rules. Have you had chance to read through this and prepare answers where necessary?

ADD IF NECESSARY: You don't necessarily need to have written down/answered every section of the data sheet so long as you feel you'd be able to give me this information over the phone.

INTERVIEWER NOTE: If respondent is willing to participate but does not feel informed enough to continue immediately, make hard appointment

Yes	1	CONTINUE
No – Arrange hard appointment	2	MAKE APPOINTMENT
Refusal	3	THANK AND CLOSE

A Background

A1 **Before I ask you about your specific scheme rules I'd just like to get a bit more background about the [SCHEME NAME] pension scheme to understand this in detail.**

IF THE SCHEME IS SECTIONALISED AND SCHEME RULES DIFFERENT (S12=2) ADD FOLLOWING TEXT: **For the purposes of this survey we'd like you to answer in relation to the largest section of the DB scheme, i.e. the section that has the most members.**

In what year was the [SCHEME NAME] **established?**

ADD IF NECESSARY: If unsure please give your best estimate

PLEASE RECORD FULL YEAR 19XX OR 20XX

A1b **How many members does** [ADD IF S12=2 the largest section of] [SCHEME NAME] **have in the UK, including all active, deferred and pensioner members?**

WRITE IN NUMBER

WRITE IN ALLOW DK (we already have banded response)

A2 **And approximately how many of your** [INSERT FROM A1A] **members are active members?**

WRITE IN CATI DO NOT ALLOW TO BE MORE THAN A1A

IF DON'T KNOW EXACT NUMBER – PROMPT WITH RANGES

0 members	1	
1-11 members	2	
12-29 members	3	
30-99 members	4	
100-199 members	5	
200-999 members	6	
1,000-4,999 members	7	
5,000-9,999 members	8	
10,000+ members	9	
Don't know	10	

A3 **And approximately how many of your** [INSERT FROM A1A] **members are deferred members?**

WRITE IN CATI DO NOT ALLOW TO BE MORE THAN A1A

IF DON'T KNOW EXACT NUMBER – PROMPT WITH RANGES

0 members	1	
1-11 members	2	
12-29 members	3	
30-99 members	4	
100-199 members	5	
200-999 members	6	
1,000-4,999 members	7	
5,000-9,999 members	8	
10,000+ members	9	
Don't know	10	

A4 **And approximately how many of your** [INSERT FROM A1A] **members are pensioner members?**

WRITE IN CATI DO NOT ALLOW TO BE MORE THAN A1A

IF DON'T KNOW EXACT NUMBER – PROMPT WITH RANGES

0 members	1	
1-11 members	2	
12-29 members	3	
30-99 members	4	
100-199 members	5	
200-999 members	6	
1,000-4,999 members	7	
5,000-9,999 members	8	
10,000+ members	9	
Don't know	10	

ASK ALL

A5 Thinking about the ADD IF S12=2 the largest section of] [SCHEME NAME], is this a final salary, career average or cash balance scheme?

INTERVIEWER NOTE: If queried by respondents answering on behalf of the whole scheme because scheme rules are the same for all sections ask for a response in relation to the largest section of the scheme

READ OUT. CODE ONE ONLY

Final salary	1	
Career average salary	2	
Cash balance	3	
DO NOT READ OUT Other (write in)	4	
DO NOT READ OUT: Don't know	5	

A6 Approximately, what was the total value of all assets in the scheme at the most recent valuation?

WRITE IN £

IF DON'T KNOW EXACT NUMBER – PROMPT WITH RANGES

Under £5 million	1
£5 million to under £10 million	2
£10 million to under £100 million	3
£100 million to under £500 million	4
Over £500 million	5
Don't Know	6

A7 **And to the best of your knowledge what is the 'Scheme Specific Valuation' for total scheme liabilities, sometimes called scheme 'technical provisions'?**

ADD IF NECESSARY: Technical provisions are a way of measuring liabilities. It is for trustees, with the employer's agreement, to decide how to calculate their scheme's technical provisions. In deciding the basis for calculating technical provisions, the trustees must obtain actuarial advice. It is likely your scheme calculates its technical provision each year, in between the triennial valuations.

WRITE IN £

IF DON'T KNOW EXACT NUMBER – PROMPT WITH RANGES

Under £5 million	1
£5 million to under £10 million	2
£10 million to under £100 million	3
£100 million to under £500 million	4
Over £500 million	5
Don't Know	6

ASK IF DON'T KNOW SCHEME LIABILITIES ON PROVISIONS BASIS (A7=DK)

A7a **Although you don't know the total scheme liabilities on the technical provisions basis, are you able to give me an approximate figure of total liabilities on another measure?**

WRITE IN £

IF DON'T KNOW EXACT NUMBER – PROMPT WITH RANGES

Under £5 million	1
£5 million to under £10 million	2
£10 million to under £100 million	3
£100 million to under £500 million	4
Over £500 million	5
Don't Know	6

ASK IF ABLE TO GIVE LIABILITIES BY A DIFFERENT MEASURE (A7a IS NOT DK)

A7b And can I just check what measure you used to calculate total scheme liabilities?

WRITE IN

ASK ALL

A8 I would now like to ask about the principal employer, what is the main business activity of the employer?

PROBE AS NECESSARY:

- *Within which sectors does the business operate in?*
- *What is the main product or service offered by the business?*

WRITE IN

B Scheme rules (Indexation and revaluation)

B1 I'm now going to run through some questions about the specific rules your scheme has in place. You may find it helpful to have the datasheet we sent to hand.

Firstly, are your scheme rules the same for both the indexation for pensions in payment and for the revaluation of deferred pensions?

By this I mean do scheme rules state that the indexation of pensions in payment and the revaluation of deferred pensions are to be increased in the same way?

Yes	1	CONTINUE
No	2	SKIP TO SECTION C
DO NOT READ OUT: The rules do not specifically reference indexation and revaluation	3	SKIP TO F13

ASK REST OF SECTION B IF SCHEME RULES THE SAME (B1=1)

B2 Does the wording of your scheme rules tie increases in pensions in payment and deferred pensions to…?

READ OUT. CODE ONE ONLY

The Retail Prices index (RPI) explicitly	1	
Simply the 'statutory minimum'	2	
Another amount	3	
DO NOT READ OUT: The rules do not specifically reference indexation and revaluation	4	SKIP TO F13

IF 'ANOTHER AMOUNT' (B2/3)

B3 How do your rules state that pensions in payment and deferred pensions should be increased?

WRITE IN

ASK IF SCHEME RULES THE SAME FOR BOTH PENSIONS IN PAYMENT AND DEFERRED PENSIONS (B1=1)

B4 **Do your scheme rules place a cap on increases to pensions in payment and/or deferred pensions?**

Yes	1	
No	2	
Don't know	3	

IF HAVE A CAP (B4=1)

B5 **Are your caps for pensions in payment….?**
READ OUT AND CODE ONE ONLY

5% for rights accrued between April 1997 and April 2005, and then 2.5% for rights accrued after 2005	1	
5% both pre and post April 2005	2	
Set at another amount and/or different dates (write in)	3	
DO NOT READ OUT: **Do not have caps for pensions in payment**	4	
Don't know	5	

B6 **And are your caps for deferred pensions….?**
READ OUT AND CODE ONE ONLY

5% for rights accrued before 6 April 2009 and then 2.5% for rights accrued after that date	1	
5% for rights accrued before and after 6 April 2009	2	
Set at another amount and/or different dates (write in)	3	
DO NOT READ OUT: Do not have caps for deferred pensions	4	
Don't know	5	

NOW SKIP TO SECTION E

C Scheme rules – Indexation only

ASK SECTION C IF SCHEME RULES DIFFERENT FOR PENSIONS IN PAYMENT AND DEFERRED PENSIONS (B1=2)

I'm now going to run through some questions about the specific rules your scheme has in place with regards to indexation for PENSIONS IN PAYMENT.

C1 **Does the wording of your scheme rules tie increases in pensions in payment to…?**

READ OUT. CODE ONE ONLY

The Retail Prices index (RPI) explicitly	1	
Simply the 'statutory minimum'	2	
Another amount	3	
DO NOT READ OUT: The rules do not specifically reference indexation and revaluation	4	SKIP TO F13

IF 'ANOTHER AMOUNT' (C1/3)

C2 **How do your rules state that pensions in payment should be increased?**

WRITE IN

ASK IF SCHEME RULES DIFFERENT FOR PENSIONS IN PAYMENT AND DEFERRED PENSIONS (B1=2)

C3 **Do your scheme rules place a cap on increases to pensions in payment?**

Yes	1	
No	2	
Don't know	3	

IF HAVE CAPS FOR PENSIONS IN PAYMENT (C3/1)

C4 Are your caps for pensions in payment….?

READ OUT AND CODE ONE ONLY

5% for rights accrued between April 1997 and April 2005, and then 2.5% for rights accrued after 2005	1	
5% both pre and post April 2005	2	
Set at another amount and/or different dates (write in)	3	
Don't know	4	

D Scheme rules – Revaluation only

ASK SECTION D IF SCHEME RULES DIFFERENT FOR PENSIONS IN PAYMENT AND DEFERRED PENSIONS (B1=2)

I'm now like to ask you the same questions with regards to revaluing of DEFERRED PENSIONS.

D1 **Does the wording of your scheme rules tie revaluation of deferred pensions to…?**
READ OUT. CODE ONE ONLY

The Retail Prices index (RPI) explicitly	1	
Simply the 'statutory minimum'	2	
Another amount	3	
DO NOT READ OUT: The rules do not specifically reference indexation and revaluation	4	SKIP TO F13

IF 'ANOTHER AMOUNT' (D1/3)

D2 How do your rules state that deferred pensions should be revalued?

WRITE IN

ASK IF SCHEME RULES DIFFERENT FOR PENSIONS IN PAYMENT AND DEFERRED PENSIONS (B1=2)

D3 **Do your scheme rules place a cap on increases to deferred pensions?**

Yes	1	
No	2	
Don't know	3	

IF HAVE CAPS FOR DEFERRED PENSIONS (D3/1)

D4 **Are your caps for increases to deferred pensions….?**
READ OUT AND CODE ONE ONLY

5% for rights accrued before 6 April 2009 and then 2.5% for rights accrued after that date	1	
5% for rights accrued before and after 6 April 2009	2	
Set at another amount and/or different dates (write in)	3	
Don't know	4	

E Discretion

ASK ALL WHERE SCHEME RULES REFERENCE INDEXATION/REVALUATION
(B1=1/2 OR B2=1/2/3 OR D1=1/2/3 OR C1=1/2/3)

E1 **Thinking about the scheme rules we have just discussed, is there discretion under the scheme rules in respect of the indexation of pensions in payment for……?**
READ OUT. CODE ONE ONLY

	Yes	No	DO NOT READ OUT: Don't know
E1A: Trustees to adopt an inflation measure other than RPI	1	2	3
E1B: Trustees to make discretionary additional increases in some circumstances	1	2	3
E1C: Any other discretion under scheme rules in respect to the indexation of pensions in payment	1	2	3

IF ANY OTHER DISCRETION (E1C=1)

E1d **What discretion is there under scheme rules in respect to indexation of pensions in payment?**

WRITE IN

ASK IF TRUSTEES HAVE DISCRETION FOR INDEXATION (E1A=1 or E1B=1 OR E1c=1)

E2 **How often have the trustees exercised this discretion over the past five years?**
READ OUT. CODE ONE ONLY

Once	1	
Twice	2	
Three times	3	
Four times	4	
Five times	5	
DO NOT READ OUT: Not exercised discretion in the last 5 years	6	
DO NOT READ OUT: Don't know	7	

ASK ALL WHERE SCHEME RULES REFERENCE INDEXATION/REVALUATION (B1=1/2 OR B2=1/2/3 OR D1=1/2/3 OR C1=1/2/3)

E3 **Still thinking about the scheme rules we have just discussed, is there discretion under the scheme rules in respect of revaluing deferred pensions for……?**
READ OUT. CODE ONE ONLY

	Yes	No	DO NOT READ OUT: Don't know
E3A: Trustees to adopt an inflation measure other than RPI	1	2	4
E3B: Trustees to make discretionary additional increases in some circumstances	1	2	4
E3C: Any other discretion under scheme rules in respect to revaluing deferred pensions	1	2	4

IF ANY OTHER DISCRETION (E3C=1)

E3d **What discretion is there under scheme rules in respect to revaluing deferred pensions?**

WRITE IN

ASK IF TRUSTEES HAVE DISCRETION FOR INDEXATION (E3A=1 OR E3B=1 OR E3C=1)

E4 **How often have the trustees exercised this discretion over the past five years?**
READ OUT. CODE ONE ONLY

Once	1	
Twice	2	
Three times	3	
Four times	4	
Five times	5	
DO NOT READ OUT: Not exercised discretion in the last 5 years	6	
DO NOT READ OUT: Don't know	7	

F Impact of change to CPI

ASK ALL WHERE SCHEME RULES REFERENCE INDEXATION/REVALUATION
(B1=1/2 OR B2=1/2/3 OR D1=1/2/3 OR C1=1/2/3)

F1 I'd now like to discuss the impact the Government's decision to use CPI rather than RPI as the basis for statutory minimum revaluation and indexation of pensions for DB schemes into the future.

We are interested in how the change will affect your [SCHEME NAME] scheme. We understand that it may not always be possible to provide a definitive answer but we are interested in what you think, in your best judgement, would be the most likely course of action for your scheme. This is to help the government forecast the likely impact of the changes.

Would the scheme rules need to be changed to allow you to use CPI for calculating pension increases?

Yes – for pensions in payment ONLY	1	
Yes – for deferred pensions ONLY	2	
Yes – for both pensions in payment and deferred pensions	3	
No	4	
Don't know	5	

ASK IF RULES NEED TO BE CHANGED (F1=1, 2 OR 3)

F2 Is there provision in the scheme to allow you to make such a change?

Yes – for pensions in payment ONLY	1	
Yes – for deferred pensions ONLY	2	
Yes – for both pensions in payment and deferred pensions	3	
No	4	
Don't know	5	

ASK ALL WITH PROVISION FOR CHANGE IN SCHEME RULES FOR PENSIONS IN PAYMENT
(F1=2 OR 4) OR (F2=1 OR 3)

F3 **Given that you have provision in your scheme rules to make changes, how likely do you think it is that the rules for indexation of PENSIONS IN PAYMENT will be changed following the Government's decision to switch from RPI to CPI? Do you think it is...?**
READ OUT. CODE ONE ONLY

Very likely	1	
Fairly likely	2	
Fairly unlikely	3	
Very unlikely	4	
DO NOT READ OUT: Don't know/unsure	5	

ASK ALL WITH NO PROVISION IN RULES FOR CHANGE TO PENSIONS IN PAYMENT
(F1=5 OR ((F1=1 or 3) AND (F2=2, 4 or 5))

F4 **If you were able to modify your scheme rules to make changes to the rules about pensions increases how likely do you think it is that the rules for indexation of PENSIONS IN PAYMENT would be changed? Do you think it would be....?**

READ OUT. CODE ONE ONLY

Very likely	1	
Fairly likely	2	
Fairly unlikely	3	
Very unlikely	4	
DO NOT READ OUT: Don't know/unsure	5	

ASK IF ENVISAGE CHANGING/WOULD LIKE TO CHANGE INDEXATION RULES
(F3=1/2 OR F4=1/2)

F5 **And in this scenario do you simply envisage replacing reference to RPI with CPI in your calculations, or another form of change?**

Simply replace reference to RPI with CPI	1	
Make another form of change (WRITE IN)	2	
Don't know	3	

IF HAVE CAPS FOR PENSIONS IN PAYMENT (B4/1 OR C3/1)

F6 And in terms of caps on increases to pensions in payment, do you think you (IF F3=1/2: are likely to.....?; IF F4=1/2 would want to.....?)

Retain your existing caps	1	
Impose new caps (SPECIFY LEVEL OF CAP)	2	
Remove caps altogether for pensions in payment	3	
Don't know	4	

IF DO NOT HAVE CAPS FOR PENSIONS IN PAYMENT AT PRESENT (B4/2-3 OR C3/2-3)

F7 And do you think you (IF F3=1/2: are likely to; IF F4=1/2 would want to) start to impose caps on increases to PENSIONS IN PAYMENT?

Yes (SPECIFY LEVEL OF CAP)	1	
No	2	
Don't know	3	

READ OUT: I'd now like to ask you similar questions about deferred pensions

ASK ALL WITH PROVISION FOR CHANGE IN SCHEME RULES FOR DEFERRED PENSIONS (F1/1 OR 4) OR (F2/2 OR 3)

F8 Given that you have provision in your scheme rules for making changes, how likely do you think it is that the rules for the revaluation of DEFERRED PENSIONS will be changed following the Government's switch from RPI to CPI? Do you think it is.....?

READ OUT. CODE ONE ONLY

Very likely	1	
Fairly likely	2	
Fairly unlikely	3	
Very unlikely	4	
DO NOT READ OUT: Don't know/unsure	5	

ASK ALL WITH NO PROVISION IN RULES FOR CHANGE TO DEFERRED PENSIONS (F1=5 OR ((F1=2 OR 3) AND (F2=1, 4 OR 5)).

F9 **If you were able to modify your scheme rules to make changes to the rules about pensions increases – how likely do you think it is that the rules for the revaluation of DEFERRED PENSIONS would be changed?**

READ OUT. CODE ONE ONLY

Very likely	1	
Fairly likely	2	
Fairly unlikely	3	
Very unlikely	4	
DO NOT READ OUT: Don't know/unsure	5	

ASK IF ENVISAGE CHANGING/WOULD LIKE TO CHANGE INDEXATION RULES (F8=1/2 OR F9=1/2)

F10 **And in this scenario do you simply envisage replacing reference to RPI with CPI in your calculations, or another form of change?**

Simply replace reference to RPI with CPI	1	
Make another form of change (WRITE IN)	2	
Don't know	3	

IF HAVE CAPS FOR DEFERRED PENSIONS (B4/1 OR D3/1)

F11 **And in terms of caps on increases, do you think you (IF F8=1/2: are likely to.....?; IF F9=1/2: would want to.....?)**

Retain your existing caps	1	
Impose new caps (SPECIFY LEVEL OF CAP)	2	
Remove caps altogether for pensions in payment	3	
Don't know	4	

IF DO NOT HAVE CAPS FOR DEFERRED PENSIONS AT PRESENT (B4/2-3 OR D3/2-3)

F12 **And do you think you (IF F8=1/2: are likely to; IF F9=1/2 OR F9A=1/2: would want to) start to impose caps on increases to DEFERRED PENSIONS?**

Yes (SPECIFY LEVEL OF CAP)	1	
No	2	
Don't know	3	

READ OUT IF SKIPPED FROM B1 (B1=3)

You may be aware of the Government's decision to use CPI rather than RPI as the basis for the statutory minimum revaluation and indexation of pensions for DB schemes in the future.

Further to this, a consultation document published on 8 December 2010 outlined that the government does not propose to introduce legislation that would create a modification power (or override) to change existing scheme rules.

ASK ALL

F13 **Since first hearing about the changes have you or any of the trustees done any of the following…**

READ OUT. CODE ALL THAT APPLY

ONLY ASK IF LINKED TO STATUTORY MINIMUM (B2=2 OR C1=2 OR D1=2) Made formal assessments of how liabilities will change if the statutory minimum was linked to CPI rather RPI	1	
ONLY ASK IF NOT LINKED TO STATUTORY MINIMUM (B2 not 2 AND C1 not 2 AND D1 not 2) Made formal assessments of how liabilities will change if your scheme was linked to CPI rather than RPI	2	
Reviewed the scheme literature in light of the proposed changes	3	
Sought any professional advice in relation to the proposed changes	4	
Communicated with employees and unions on the issue	5	
Anything else (Write in)	6	
None of these	7	
DO NOT READ OUT: Don't know	8	

ASK IF MADE LIABILITIES ASSESSMENT (F13=1 OR 2)

F14 **After making the assessment on liabilities, do you anticipate that total liabilities will increase, stay the same or decrease?**

READ OUT. CODE ONE ONLY

Increase	1	
Stay the same	2	
Decrease	3	
DO NOT READ OUT: Don't know/unable to say yet	4	

ASK IF ANTICIPATE THAT LIABILITIES WILL CHANGE (F14=1 OR 3)

F15 **By how much do you anticipate that total liabilities will** [INCREASE/DECREASE FROM F14]**?**

You can answer as a percentage of your total liabilities or as value in pounds.

Choose to answer as a percentage of all liabilities	1
Choose to answer total £	2

IF CHOOSE TO ANSWER AS % (F15=1)

F15a **By how much do you anticipate that total liabilities will** [INCREASE/DECREASE FROM F14] **as percentage of your total liabilities?**

WRITE IN %

IF DON'T KNOW EXACT NUMBER – PROMPT WITH RANGES

Under 2%	1
2%-5%	2
5%-8%	3
8%-11%	4
11%-15%	5
15%-20%	6
20%-25%	7
25+%	8
Don't Know	12
Choose to answer total £	2

IF CHOOSE TO ANSWER IN £ (F15=2)

F15b **By how much do you anticipate that total liabilities will** [INCREASE/DECREASE FROM F14]**?**

WRITE IN %

IF DON'T KNOW EXACT NUMBER – PROMPT WITH RANGES

Less than £1.25 million	1
£1.25 million to less than £2.5 million	2
£2.5 million to less than £5 million	3
£5 million to less than £12.5 million	4
£12.5 million to £25 million	5
Over £25 million	6
Don't Know	7

ASK IF NOT MADE LIABILITIES ASSESSMENT (F13 IS NOT 1 OR 2)

F16 **With CPI rather than RPI being used as the measure of inflation, when would you expect to know what difference it will make to your scheme liabilities?**

That is, when would you make a formal assessment of the scheme's liabilities?

READ OUT. CODE ONE ONLY

Within a month	1	
1-2 months	2	
3-4 months	3	
5-6 months	4	
7-8 months	5	
9-10 months	6	
11-12 months	7	
Over a year	8	
DO NOT READ OUT: It depends/unable to say	9	
DO NOT READ OUT: We will not make a formal assessment	10	
DO NOT READ OUT: Don't know	11	

ASK IF REVIEWED LITERATURE (F13=3)

F17 You mentioned that there had been a review of the scheme literature, is there anything contained within your scheme literature that is likely to cause complications for the scheme now that the statutory minimum for indexation and revaluation will be based on CPI?

Yes	1	
No	2	
Don't know	3	

ASK IF ANTICIPATE COMPLICATIONS (F17=1)

F18 What complications do you envisage your scheme will face?

WRITE IN

READ OUT TO ALL

We're coming to the end of the interview; I'd just like to ask you a couple of final questions about how the change may impact on your scheme.

ASK IF OPEN TO NEW MEMBERS (S14=1)

F19 With CPI rather than RPI being used as the measure of inflation for the statutory minimum level of indexation and revaluation for pensions, how likely do you think it is that your scheme will remain open to new members? Do you think it is...?

READ OUT. CODE ONE ONLY

Very likely	1	
Fairly likely	2	
Fairly unlikely	3	
Very unlikely	4	
Don't know	5	

F20 **And will the change to CPI make your scheme.....?**

READ OUT AND CODE ONE ONLY

A lot more likely to remain open to new members	1	
A little more likely	2	
A little less likely	3	
A lot less likely to remain open to new members	4	
DO NOT READ OUT: It will make no difference to whether it remains open to new members	5	
Don't know	6	

ASK IF MORE LIKELY TO REMAIN OPEN (F20=1 OR 2)

F21 **Why do you say that?**

WRITE IN

ASK IF LESS LIKELY TO REMAIN OPEN (F20=3 OR 4)

F22 **Why do you say that?**

WRITE IN

ASK IF NO DIFFERENCE (F20=5)

F23 **Why do you say that?**

WRITE IN

ASK ALL

F24 **And will the change to CPI make the funding position of your scheme.....?**

READ OUT AND CODE ONE ONLY

A lot more secure	1	
A little more secure	2	
A little less secure	3	
A lot less secure	4	
DO NOT READ OUT It will make no difference	5	
Don't know	6	

ASK IF MORE SECURE (F24=1 OR 2)

F25 **Why do you say that?**

WRITE IN

ASK IF LESS SECURE (F24=3 OR 4)

F26 **Why do you say that?**

WRITE IN

ASK IF NO DIFFERENCE (F24=5)

F27 **Why do you say that?**

WRITE IN

Record details of respondent who completed interview

Name:	
Job title:	

F28 And can I just ask, would it be OK for IFF or DWP to re-contact you in the future if we are doing any further research in this area?

Yes	1	
No	2	

Finally I would just like to confirm that this survey has been carried out under IFF instructions and within the rules of the MRS Code of Conduct. Thank you very much for your help today.

On the 8 July 2010, the Government announced its intention to use the Consumer Prices Index (CPI) as the basis for determining the statutory minimum percentage increase for revaluation and indexation of private sector occupational pensions. This research was commissioned by the Department for Work and Pensions (DWP) to explore how private sector defined benefit pension schemes are affected by, and intend to respond to that decision.

A survey was conducted among a sample of 200 private sector defined benefit pension schemes, drawn from The Pensions Regulator's register of pension schemes. The research sought to obtain information about schemes' existing rules in relation to indexation and revaluation and to explore whether schemes expected to make changes to their rules as a result of the announcement. It also explored whether schemes have assessed the likely impact for them of the move to CPI.

If you would like to know more about DWP research, please contact:
Kate Callow, Commercial Support and Knowledge Management Team,
Upper Ground Floor, Steel City House, West Street, Sheffield, S1 2GQ.
http://research.dwp.gov.uk/asd/asd5/rrs-index.asp

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