

Letter 2

Thank you for contacting me about inflation protection for pre-1997 pensions including the Digital now HPE pension.

Before April 1997, there was no statutory requirement for defined benefit schemes (DB) to increase pensions once in payment. As part of the Pensions Act 1995, the Government introduced a requirement for Defined Benefit (DB) pension schemes to provide some measure of inflation protection for benefits accruing between April 1997 and 2005, capped at 5 per cent. Pensions earned after 2005 are increased by the rate of inflation capped at 2.5 per cent. Some schemes do provide some increases to pensions accrued before 1997 once in payment on a voluntary basis.

It was estimated that applying the rules retrospectively which required schemes to pay indexation on pre-1997 accruals would be prohibitively expensive for pensions providers to fund. The changes only apply to benefits accrued from April 1997 onwards and were not backdated to cover benefits already earned. This is because it was not considered reasonable to retrospectively increase the cost to the scheme of benefits already accrued, as these costs could not possibly have been taken into account in the funding assumptions that determined the contribution rates paid at the time.

I noted the Government's Pension Schemes Bill in the King's speech and look forward to closer scrutiny of their pensions policy as parliamentary time allows.

Thank you again for taking the time to contact me.