



# HMT response to Economic Affairs Committee report on RPI

September 2019

In January, the Economic Affairs Committee of the House of Lords [published](#) its [report](#) on the use of RPI. The report made a number of conclusions and recommendations.

This morning the Chancellor [published](#) his response to that report.

The key announcement is that a consultation will take place starting in January on an alignment of RPI with CPIH (CPI including housing), at some point between 2025 and 2030. The response also notes that the UK Statistics Authority does not require the consent of the Chancellor to change the calculation of RPI after 2030. It's not completely clear, but reading between the lines we think that it is possible (perhaps even likely?) that RPI will effectively be based on CPIH from 2030 and possibly earlier - our initial interpretation is that the change is going to be made from 2030 and the consultation is about whether to make the change before then, i.e. between 2025 and 2030.

We will provide further comment in due course but forecasts for CPIH are generally lower than forecasts for RPI under the current methodology - by around 1% p.a. This means that future index-linked gilt payments (and other assets such as swaps that provide a hedge to RPI) are therefore likely to reduce as a result of an alignment with CPIH. That is unlikely to be welcome news for LGPS funds holding index-linked gilts (or other assets such as swaps that provide a hedge to RPI) but whose liabilities are currently CPI rather than RPI-linked (i.e. this change will potentially affect their assets but not their liabilities). Any funds with material index-linked holdings (current or planned) should consult with their actuary and investment consultant.

Kind regards

**Alison Murray FFA | Partner**

**Aon**

25 Marsh Street | Bristol | BS1 4AQ

d 0117 900 4219 | m 0790 436 7446

[alison.murray@aon.com](mailto:alison.murray@aon.com) | [www.aonhewitt.com/publicsectorpensions](http://www.aonhewitt.com/publicsectorpensions) | [www.aon.com](http://www.aon.com)

## About Aon

[Aon plc](#) (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

Aon Hewitt Limited

Registered in England & Wales No. 4396810

Registered office: The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN

Copyright © 2019 Aon Hewitt Limited. All rights reserved.

Aon Hewitt Limited is authorised and regulated by the Financial Conduct Authority.

Nothing in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this document alone. Consultants will be pleased to answer questions on its contents but cannot give individual financial advice. Individuals are recommended to seek independent financial advice in respect of their own personal circumstances.