Pension Increases

Salary related schemes

Prior to 6 April 1997 there was no requirement at all for that part of a member's pension over and above the Guaranteed Minimum Pension (GMP) to be increased during payment.

The Pensions Act 1995 introduced a requirement for all pension built up from 6 April 1997 (when GMPs ceased to accrue) to be increased annually in line with the increase in the retail prices index (RPI) to a maximum of 5.0%. This was known as limited price indexation (LPI). This legislation did not apply to pensions arising from Additional Voluntary Contributions (AVCs).

The Pensions Act 2004 introduced further legislation, whereby salary-related schemes could choose to amend their rules to reduce LPI to a maximum of 2.5%. This applied for all pension built up from 6 April 2005 (or such later time that the scheme rules were amended).

The Pensions Act 2011 implemented the Government's policy to use the consumer prices index (CPI) in place of the RPI as the index for determining pension increases (and revaluation in deferment) for salary-related schemes. However, the Act confirmed that no CPI underpin would be necessary where schemes continued to increase by reference to RPI.

With regard to the GMP, once a member has reached ‘GMP due date' the scheme does not need to increase the pre-1988 GMP although it must increase the post-1988 GMP each 6 April by the increase in the CPI to a maximum of 3.0%. Prior to the Pensions Act 2011, increases to post-1988 GMPs were made with reference to RPI rather than CPI.

Prior to 6 April 2016, any CPI increases to the pre-1988 GMP (over and above 0%) and the post-1988 GMP (over and above 3%) were paid by the State as part of the member’s Additional State Pension. These additional increases are no longer applied from 6 April 2016.

Once in payment, pensions typically increase on the same day each year (e.g. 1 April for all pensioners) or on the anniversary of the commencement of the pension.

Money purchase schemes

Prior to 6 April 1997 there was no requirement at all for the element of a member's pension over and above the Protected Rights (PR) pension to be increased during payment.

The Pensions Act 1995 introduced a requirement for all pension over and above the PR pension built up from 6 April 1997 to be increased in line with the increase in the retail prices index (RPI) to a maximum of 5.0%. This was known as limited price indexation (LPI). This legislation did not apply to pensions arising from Additional Voluntary Contributions (AVCs).

Prior to 6 April 2005, any pre 6 April 1997 PR pension had to be increased in line with the increase in the RPI to a maximum of 3.0% and any post 5 April 1997 PR pension had to be increased in line with the increase in the RPI to a maximum of 5.0% (with any additional increase in the RPI for both elements being the responsibility of the State).

The Pensions Act 2004 removed the requirement to provide any increases at all to money purchase pensions that came into payment from 6 April 2005 (including any PR pensions).

The Pensions Act 2007 further provided for the abolition of PRs altogether, although this did not take effect until 6 April 2012 and did not affect any PR pensions already in payment at this date.

Once in payment, pensions typically increase on the same day each year (e.g. 1 April for all pensioners) or on the anniversary of the commencement of the pension.

With ‘Budget 2014’ and the introduction of ‘freedom of choice’, it has been possible for money purchase pensions secured with insurance companies (i.e. annuities) from 6 April 2015 to decrease as well as increase in payment.