

# Big Freeze – UK Consumer Price Index Revaluation Drops to Zero

Article By:

Matthew Giles

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The **Consumer Prices Index** versus **Retail Prices Index** debate remains a live issue for many **UK** pension plans because of a material variation between rises in CPI and RPI which influences benefit cost. The **Occupational Pensions** (Revaluation) Order 2015 was laid before Parliament on 24 November, and sets the statutory revaluation rate for 2015 at 0%. This was based upon a Consumer Prices Index figure of -0.1% at September 2015. By contrast RPI was 0.8%. The disparity between the two main inflation measures continues to encourage sponsoring employers to explore moving their pension plans to the statutory basis. We expect that this issue will continue to be a live proposal for many trustee boards for some time.

Thwarting some employers' plans is recent case law concerning the extent to which pension plans can move away from RPI, particularly for benefits already accrued. In the case of **Buckinghamshire v. Barnado's** the High Court considered a common definition of "Index" in pension plan rules and determined that it did not provide the flexibility to move away from RPI for as long as RPI continues to be published. As RPI needs to be published for other purposes, this restricts some moves to CPI unless and until the High Court's decision is overturned.

Negative CPI numbers in September and October also highlight the value (and cost) of the Government's triple lock guarantee in relation to the state pension, which increases by the highest of inflation, average earnings, or 2.5%. Chancellor George Osborne repeated the Government's commitment to this in the recent Autumn Statement. On 1 December the Organisation for Economic Co-operation and Development (OECD) described the triple lock as "one of the most bizarre policies" implemented in UK pensions for a long time, despite it having cross-party support. So for this year at least increases in state pensions will outstrip the cost of living, which may go some way to balancing the books for those pensioners whose private pensions will be frozen.

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