

August 2010

**Consumer Prices Index / Retail Prices Index
Policyholder Announcement**

Background

The Government has stated its intention to replace Retail Prices Index (RPI) with Consumer Prices Index (CPI) as the basis of escalation that will apply to:

- preserved benefits (benefits that arise when an individual ceases to be an active member of a pension scheme, payable at a later date); and
- pensions in payment.

History suggests that CPI increases will, on average, be lower than RPI increases. This is because the mathematical formula used to calculate CPI differs from that used for RPI. For example, CPI excludes housing costs which are expected, more often than not, to rise higher and inflate RPI relative to CPI. However, it is possible that in some years CPI will exceed RPI.

The Government's proposals appear, at this stage, to only impact where the requirement for statutory minimum increases apply. Therefore, where scheme rules already provide for higher increases, it is not anticipated, at this stage, that the changes will override scheme specific increases.

The implications of these proposals for occupational schemes and bulk annuities will be dependent on the precise wording of the trust deed and rules, and the policy conditions, respectively.

Whilst we know you will appreciate that no binding commitments can be made until we have seen the legislation, we think you might find it helpful to have an indication of the approach that MetLife Assurance intends to adopt.

For individual policyholders

You are an individual policyholder if your benefits have been secured through the purchase of a separate insurance policy in your name, such that you became a policyholder of Metlife Assurance and ceased to be a scheme member.

If your individual policy has been issued by MetLife Assurance, it may specifically reference RPI as the basis of escalation of your benefits. Consequently, based on the current understanding of the Government's intentions in this area, if it does contain such a statement we anticipate there will be no change to the insured benefits payable to you.

In addition, MetLife Assurance is continuing to process transfer requests as normal for those individual policyholders eligible to a transfer value.

For trustee policyholders

You are a trustee policyholder if some or all of your pension scheme benefits have been secured through the purchase of an insurance policy held in the trustee's name.

In most cases, we anticipate that this will mean maintaining payments on the contractually agreed basis and, where appropriate, continuing to use RPI rather than CPI as the applied measure of inflation. In other cases, it may be appropriate for Metlife Assurance to discuss with the scheme whether the terms of the policy should be adjusted to clarify any ambiguity or to take account of the change. At MetLife Assurance, we are currently reviewing our existing trustee policies to establish whether and to what extent potential changes may have an impact – we will be in touch with trustees as soon as this review is completed. It may be that any specific decisions will need to be deferred until the Government's proposals are finalised.

Next steps

We will continue to issue further information and updates as soon as we have more clarity on the proposals.

This reflects our current understanding of the effect of the Government's announcement. However, many details of this remain unclear and it may be that the final proposals have a much wider or narrower impact than is currently foreseeable.