

# ITEM NO: 6

<b>Report To:</b>	<b>Pension Fund Management Panel</b>
<b>Date:</b>	3 December 2010
<b>Reporting Officer:</b>	Peter Morris, Executive Director of Pensions
<b>Subject :</b>	<b>PENSIONS INCREASE 2011</b>
<b>Report Summary:</b>	The report outlines the way in which LGPS pensions are increased each year in line with inflation, reports that an increase of 3.1% is expected to apply from April 2011 and compares this with past increases and past and future actuarial assumptions on price inflation.
<b>Recommendation:</b>	The Panel is recommended to note the report.
<b>Links to Community Strategy:</b>	The LGPS contributes to reducing pensioner poverty helping to promote good health and social inclusion.
<b>Policy Implications:</b>	No change in policy is involved.
<b>Financial Implications: (Authorised by the Borough Treasurer)</b>	The expected annual increase in pensions from April 2011 is very similar to the actuary's inflation assumption, both as part of the 2007 valuation and, provisionally, for the 2010 valuation.
<b>Legal Implications: (Authorised by the Solicitor to the Fund)</b>	Pensions increase for the LGPS is a statutory obligation imposed by annual Review Orders made under the Pensions (Increase) Act 1971.
<b>Risk Management:</b>	Price inflation significantly more than anticipated is a financial risk recognised in the Funding Strategy Statement.

## **ACCESS TO INFORMATION:**

## **NON-CONFIDENTIAL**

**This report does not contain information which warrants its consideration in the absence of the Press or members of the public.**

## **Background Papers:**

1. The Pensions (Increase ) Act 1971
2. National Statistics announcement 12 October 2010

These documents may be obtained from David Phillips at the Pensions Office, Concord Suite, Droylsden who can be contacted by phone: 0161-301-7249 or e-mail: [david.phillips@gmpf.org.uk](mailto:david.phillips@gmpf.org.uk)

More information on the Consumer Prices Index can be found on the Office for National Statistics website [www.statistics.gov.uk](http://www.statistics.gov.uk) .

## **1. INTRODUCTION**

- 1.1 Pensions payable to members of the Local Government Pension Scheme come within the scope of the Pensions (Increase) Act 1971 and therefore normally benefit from mandatory annual inflation proofing increases. Annual Review Orders are normally published each March which specify the increase which is to apply. Current practice is to apply increases from the first Monday in the new tax year. In the past, the increase in each April was based on the annual rate of inflation as measured by the percentage change (if positive) in the all items Retail Prices Index (RPI) over the year to the previous September. However, as announced in the Chancellor's emergency Budget on 22 June 2010, increases will in future be based on changes in the Consumer Prices Index (CPI).

## **2. PENSIONS INCREASE 2011**

- 2.1 The annual rate of change in the Consumer Prices Index in September 2010 was +3.1%.
- 2.2 To set this increase in context, increases in pensions in the past 5 years (based on the RPI) have been as follows:

<b>From:</b>	<b>%</b>
12 April 2010	NIL
6 April 2009	5.0
7 April 2008	3.9
9 April 2007	3.6
10 April 2006	2.7

## **3. ACTUARIAL ASSUMPTIONS ON INFLATION**

- 3.1 The level of price inflation, because of its effect on the amount of pensions payable, is an important influence on the liabilities of the Fund and therefore on employer contribution rates. In performing the actuarial valuation of the Fund as at 31 March 2007, the actuary estimated future inflation at an average of +3.2% per year. The proposed assumption for the 2010 actuarial valuation is an average of +3.3% per year. The expected pension increase for 2011 is therefore very similar to actuarial assumptions.

## **4. RECOMMENDATION**

- 4.1 The Panel is recommended to note the report.