

ITEM NO: 14

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| Report To: | Pension Fund Management/Advisory Panel |
| Date: | 18 November 2011 |
| Reporting Officer: | Peter Morris, Executive Director of Pensions |
| Subject : | PENSIONS INCREASE 2012 |
| Report Summary: | The report outlines the way in which LGPS pensions are increased each year in line with inflation, reports that an increase of 5.2% is expected to apply from April 2012 and compares this with past increases and the current actuarial assumption on price inflation. |
| Recommendation: | That the Panel note the report. |
| Financial Implications: (Authorised by the Borough Treasurer) | The expected annual increase in pensions from April 2012 is significantly above the actuary's inflation assumption for the 2010 valuation. |
| Legal Implications (Authorised by the Solicitor to the Fund) | Pensions increase for the LGPS is a statutory obligation imposed by annual Review Orders made under the Pensions (Increase) Act 1971. |
| Risk Management | Price inflation significantly more than anticipated is a financial risk recognised by the Funding Strategy Statement. |
| ACCESS TO INFORMATION: | NON-CONFIDENTIAL The report does not contain information which warrants its consideration in the absence of the Press or members of the public. |
| Background Papers: | <ol style="list-style-type: none">1. The Pensions (Increase) Act 19712. Office for National Statistics announcement 18 October 2011 <p>For further information please contact David Phillips, Pensions Office, Concord Suite, Droylsden Tel 0161 301 7249, email david.phillips@gmpf.org.uk</p> <p>More information on the Consumer Prices Index can be found on the Office for National Statistics website http://www.statistics.gov.uk/hub/index.html.</p> |

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 of the new tax year. Prior to 2011, 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 Price Index (RPI) over the year to the previous September. However, as announced in the Chancellor's emergency Budget on 22 June 2010, increases from April 2011 onwards are to be based on changes in the Consumer Prices Index (CPI) (again using the September figures).

2. PENSIONS INCREASE 2012

- 2.1 The annual rate of change in the Consumer Prices Index in September 2011 was +5.2%.
- 2.2 To set this in context, increases in pensions in the past 5 years (based on the RPI up to April 2010 and on CPI for April 2011) have been as follows:

| From: | % |
|---------------|----------|
| 11 April 2011 | 3.1 |
| 12 April 2010 | NIL |
| 6 April 2009 | 5.0 |
| 7 April 2008 | 3.9 |
| 9 April 2007 | 3.6 |

3. ACTUARIAL ASSUMPTION 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 2010, the actuary estimated future inflation at an average of +3.3% per year. The expected pension increase for 2012 is therefore significantly above the actuarial assumption.

4. RECOMMENDATION

- 4.1 That the Panel note the report.